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## CORPORATE GOVERNANCE

### Shareholder Proposals

- Help tobacco farmers convert to other crops
- Halt efforts to restrict smoking in public places and to challenge ETS health hazards.
- Split the company into two separate corporations (appeal to drop) ✓
- Place warnings on all forms of "cigarette/logo" advertising
- Redeem the Poison Pill
- ~~MBC's~~ Television Advertising (Miller ✓) (appeal to drop) ✓
- Malt Liquor Marketing
- Milk/Cheese Pricing

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## General

1. What procedures are in place to review CEO performance?

- ~~To be handled by MAM personally?~~
- Performance is reviewed and compensation determined by compensation Committee.

2. What is your position on separating the offices of Chairman and CEO?

- ~~To be handled by MAM personally?~~
- Opposed

3. Is it possible that major shareholders might withhold votes for Directors?

- Anything is possible.

4. With the problems presently being faced by Philip Morris, how can you justify spending time on the Boards of other companies, like Sears?

- I serve on <sup>two</sup> ~~only one~~ outside company Boards; Sears and Dean Witter.
- Serving on other Boards provides valuable experience and ideas.
- ~~If we expect to~~ attract other qualified Board members, <sup>J</sup> we must in turn be willing to serve on other Boards. ~~the~~ <sup>to PM's Board,</sup>  
AL

5. Have you had any indication that any large group, such as CalPERS might want to try to make changes in PM's corporate structure, as happened at Sears?

- No.

6. Have there been any instances in which the Board disagreed with a significant management decision?

- Not to my knowledge.

7. Do you think that Boards of Directors should take a more active role in management?

- There is nothing wrong with Boards being active. ~~Unless you are serving on a Board you aren't in a position to know how active or inactive it is.~~

- Unless you serve on a Board, it is hard to say how active or inactive the Board is.

8. Is the company CEO available to meet with shareholders upon request, and if so, on what basis?

- ph*
- Yes *we would.*
  - *Shareholders are owners, we value their ideas.*
  - We have a very active Investor Relations department which is always available for meetings.

9. Is there much contact between outside Directors and the company's top managers who do not sit on the Board?

- Monthly Board meetings offer regular opportunity for contact.
- Managers attend Board luncheons.
- Top managers make presentations to the Board, and attend major Board planning meetings and trips.
- There are informal question and answer sessions between the two groups.
- The company's top managers participate with the Directors in a 3-day strategy session to *review* ~~set~~ the company's Five Year Plan.

10. How much communication is there between ordinary share holders and top management?

- Company policy is to maintain open communication with all of its shareholders/owners.
- There is a regular program of meetings between senior management, financial analysts and representatives of major institutions who are the beneficial holders of millions of shares of PM stock owned by "ordinary" shareholders.

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11. When does the company's shareholder rights plan (poison pill) expire, and what is your position with respect to extending the plan?

- The Rights Plan was passed by the Board on October 25, 1989. The Rights will expire on October 25, 1999, unless redeemed earlier or exchanged by the company. It is discussed in the 1993 Annual Report on page \_\_, Note \_\_.

- Further, An important study completed at a leading university (Rochester) concludes there is no evidence that the mere existence of anti-takeover measures contributed significantly to the end of the takeover boom of the 1980's. Contrary to the position taken by proponents, the study suggests that shareholder rights plans are "reliably associated with larger premiums for shareholders who sell their shares in a successful takeover."

The company's position regarding the plan may be found on page \_\_ of the Proxy Statement.

12. What is the company's policy on confidential voting?

- Policy is stated on page \_\_ of the Proxy Statement: proxies and ballots that identify the vote of individual shareholders will be kept confidential except:
- as necessary to meet legal requirements—in cases where stockholders write comments on their proxy cards, or in a contested proxy solicitation.
- During the proxy solicitation period, the company will receive aggregate vote tallies from its Independent Proxy Solicitor, but not the name of stockholders. The Independent Proxy Solicitor will notify the company if a stockholder has failed to vote so that he or she may be reminded and requested to vote.

- ~~XXXXXXXXXX~~
13. Are you considering a ban on golden parachutes?
- ~~We believe that~~ <sup>No.</sup> employment contracts are essential in order to attract and retain superior employees <sup>for</sup> ~~who hold~~ top management positions.
14. What do you think of shareholder demands that special committees be formed to investigate issues of current concern?
- <sup>Additional</sup> Special committees would not serve any ~~additional~~ useful purpose.
  - *We have special committees for compensation, audit, and*
15. Has the Board formed an Ethics Committee or Social Responsibility Committee?
- The committee on Public Affairs and Social Responsibility has been in existence for over 20 years. *affairs and Social Resp. and communication*
16. Do the Nominating and Compensation Committees comprise only outside Directors.
- Yes.
17. Why has the company not established a Shareholder Advisory Committee?
- Not necessary.
18. How does the company keep its outside Directors informed of company matters?
- Meet 11 times per year.
  - Regular reporting of all company operations at monthly Board meetings.
  - Annual 3-day planning session to review company's 5-year plans.
  - Presentations on specific operations at each Board meeting.
  - Answer questions as they arise.

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19. How does the Board actually participate in formulating company strategy?

- By reviewing and analyzing company's 5-year plans.
- By reviewing and analyzing all new investments exceeding \$5 million and all increases in existing investments over \$25 million.

20. Have any institutional investors sold large amounts of Philip Morris stock lately? *OK*

- To come.

*check Dec-Jan for 7/18 issue*

21. Have any officers, Directors, or their associates disposed of large blocks of company stock recently?

- To come.

*OK check Dec-Jan for 7/18 issue*

22. Why did they exercise their options?

- We do not know, and we do not make inquiries into the actions of individuals as long as they conform to SEC regulations.

### Composition of Board

23. Why don't you have more women and minorities on the Board of Directors?

- At this time we have two women Directors and one African-American on the Board.
- There have been times when there were more women and minorities on the Board.

24. What is the percentage of outside to employee Directors?

- Out of a total of 20 Directors, 4 are employee Directors — Murray Bring, Bill Murray, Hans Storr, and myself.

*16 are outside Directors.*

25. Some of the people might think that having 20 people on the Board makes it cumbersome. Is any consideration being given to decreasing this number?

- Over the years we have had larger Boards.

*Broad and diverse pool of expertise beneficial to large company*

- *Hutton*  
*William D. ...*  
*Roger ...*  
*John ...*

26. Are there any Directors who might face possible conflicts of interest because they sit on the Boards of other companies with whom PM deals?
- Our lawyers have looked at any possible conflict of interest, and they do not feel there are any.
27. How independent are your Directors. Aren't most of them tied to the company in one business or another?
- Our Directors are very independent — both according to the SEC definition and in the way they approach issues.
  - *There are interlocks reflected in our Board membership.*
  - It is by no means unusual for big companies like ours to have its bankers or lawyers on the Board.
28. What criteria does the Nominating Committee use to establish the independence of Directors? Describe any interlocking relations among the Directors?
- We use the same criteria as when we look for Directors in general, like:
    - ~~(1)~~ multinational business experience
    - ~~(2)~~ diversity
    - ~~(3)~~ governmental experience
    - ~~(4)~~ academic experience, and
    - ~~(5)~~ genuine interest in our business
  - *Compensation committee interlocks; described on page 8 in the proxy.*
29. Do you think it is in the company's interest that former CEO's should be on the Board?
- Hamish Maxwell and John Richman have a wealth of experience in dealing with the many issues our company faces today.
30. Has the company considered adding an environmentalist to the Board?
- All our Directors are responsible to all shareholders in every category of the company's operations, including environmental matters.



31. Are you thinking of having an employee representative on the Board?

- No.

32. Why was a new member added to Board?

- *In anticipation of 2 retirements taking effect at this meeting.*  
~~To come.~~ *get answers for it*

33. Mr. Wolf has a long and distinguished history with the airline industry, but what expertise does he bring to the PM Board of Directors?

- ~~To come~~ *Mr. Wolf is a strong and effective leader of a global business.*

34. What was the average attendance of the Directors at the Board meetings?

- *In excess of 90% in 1993.*
- ~~To come.~~ *100% attendance*
- *16 of the 20 directors attended 100% of the Board meetings and ~~the~~ Committee meetings.*

35. Are the Directors paid their fee if they are absent? *their*

- No.

36. How much time do outside Directors spend on company matters?

- Each Director is member of one or more committees, some are members of four committees, and each committee meets 3 to 5 times a year for at least an hour each.
- Directors ~~also~~ attend 11 regular Board meetings a year, which last about 3 hours each.
- *Directors attend a 3-day planning session annually.*

37. Where were Board meetings held in 1993?

- ~~To come.~~ *in NY at PM HQ*
- *in Richmond, Annual meeting.*
- *in Burlington; September 1993.*
- *in Northfield, 1993*

## Annual Meeting Arrangements

38. Has the company considered rotating the annual meeting among location with large shareholder concentrations?

- We have considered it, but Richmond is the traditional home of Philip Morris.

• ~~There~~ No benefit, could not move to rotate.

39. Can nominations to the Board of Directors be made from the floor at the Annual Meeting?

• NO,

- The company's By-Laws provide that ~~such~~ nominations must be made *before the Annual Meeting.* in writing during ~~a specific period following the date of the previous year's proxy statement.~~

40. What is the cost of holding the annual shareholders' meeting?

- The cost in 1993 was approximately \$2 million.
- This included \$185,000 for printing of the Proxy Statements, and
- \$1,150,000 postage for mailing ~~them~~ *proxy statements* and Annual Reports. ~~The rental of~~
- the tent and related expenses ~~amounted to~~ *was* \$250,000.

41. Will a post-meeting report and a complete transcript be sent to shareholders?

- A post-meeting report is included in our First Quarter Report mailed to shareholders in May.
- Shareholders may review a complete written transcript at the company's headquarters, 120 Park Avenue, New York, upon written request to the Corporate Secretary.

42. Why can't we hold the shareholders' meeting in an auditorium large enough to accommodate everybody?

- We could, but we like holding our meeting on our own premises.
- *It would be more costly to rent a larger place.*

43. Why isn't there a "No Smoking" section in this auditorium?

- No request has been received.
- This auditorium has very good ventilation.

#### Audit Matters

44. What steps have been taken to strengthen internal controls to prevent kickbacks and other employee-vendor fraud?

- The company maintains a system of internal controls to ensure that:
  - ~~(a) transactions are executed in accordance with management's~~  
~~authorization and~~ properly recorded, *as authorized*
  - ~~(b) assets are safeguarded, and~~
  - ~~(c) accountability for assets is maintained.~~
- A professional Corporate Audit staff monitors the effectiveness of the controls.
- Key employees and Directors must certify compliance with the Business Conduct Policy each year and are requested to submit exceptions to such policy to the General Auditor or the Secretary of the Audit Committee for review.
- 800 number to anonymously report any wrongdoing.

45. Do the corporate auditors report directly to the Audit Committee?

- The General Auditor, who heads the company's Corporate Audit Department, reports directly to the Executive Vice President and Chief Financial Officer, ~~and~~ has direct access to senior management and the Audit Committee at his discretion.

*The General Auditor*


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46. What does the company do about auditors also auditing its competitors?

- Coopers & Lybrand has strict internal policies relating to the confidentiality of client proprietary information.
- It maintains separate engagement teams so that the same personnel would not serve major competitors.

**Questions from "The Heroes" (Committee of Concerned Employees)**

47. Why did the Proxy Statement fail to inform shareholders of the business affiliations of the Directors, a failure that constitutes fraud by omission?

- 
- The Proxy Statement did not "fail to inform" shareholders of the business affiliations of our Directors. Their business titles and Directorships are set forth very clearly. The information in our Proxy Statement is required by disclosure rules of the SEC. We fully comply with those rules.
  - The business relationships to which you refer are common and usual, permitted by the regulatory authorities and conducted — in all cases — at arms length.

48. How can you justify the presence on the Board of many Directors whose qualifications and performance on the Boards is suspect at best?

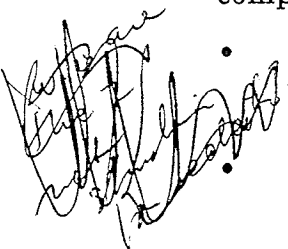
- Qualifications of each nominee to serve are examined exhaustively by the Nominating Committee before it makes a recommendation to the Board.
- Many of our Directors also serve on the Boards of some of this country's most outstanding companies.

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49. Why did the company deliberately misrepresent itself to the shareholders by concealing 1992 trade imbalances?

- We have never concealed trade imbalances.
- Any trade imbalances which may have existed resulted from reasonable sales assumptions which proved later to be incorrect. Both we and the trade made many of the same assumptions.
- Our returns have been minimal, which leads to the conclusion that although some of the sales assumptions were more aggressive than others, the vast majority were correct.
- A certain minimum level of inventory is necessary.

50. Why does the Board retain so many inside members who have a vested interest in maintaining the status quo? Are you willing to reduce inside Directors to two by 1995? How can the independence of the outside Directors be guaranteed when so many of them do extensive business with the company?

- 
- Of the 18 Board members standing for reelection, 4 are insiders — Mr. Murray, Mr. Storr, Mr. Bring, and myself.
  - Messrs. Maxwell and Richman are no longer involved in the day-to-day operations of the business.

51. Mr. Miles, are you ready to take responsibility for the company "tumbling into the abyss" in which it now finds itself? Are you prepared to face legal action against the Board and management brought by the shareholders and employees?

- 
- There are hundreds of large companies in the U.S. which can only hope to match our outstanding financial performance.
  - We have made a course correction, and we intend to make good on our promise to perform.

## Benefits to Directors

52. Why give non-employee Directors shares of stock in addition to retainers and fees?

- This is a mechanism designed to increase the ownership position of our Directors, rather than provide only cash compensation to them.

53. Why give Directors retirement benefits?

- For competitive reasons; most large companies provide such benefits.
- This rewards Board members for longer terms of service. It acts as a retention vehicle.

54. What other benefits do you provide outside Directors?

- Outside Directors receive the following "benefits": Reimbursement for business travel and life insurance.
- Outside Directors have access to the following on a contributory basis (pay 100% of premium): Medical insurance, dental coverage, pension, and voluntary deferral opportunity for Director fees.

55. Why does Mr. Miles have an agreement specifically related to termination benefits?

- check with ALC. more?*
- When the KGF severance agreements were eliminated, it was agreed that all KGF employees, in the event they were involuntarily terminated, would be eligible for a severance arrangement.

56. Did the company engage in discussions this proxy season with any shareholder or shareholder group concerning the inclusion or exclusion of any shareholder proposal in the company's Proxy Statement? If so, give details.

- check with ALC. more?*
- The company engaged in discussion with two shareholders, resulting in exclusion of <sup>these</sup> shareholders' proposals. ~~Please refer to page 1 of this section.~~
- W. Miller*  
*W. Miller*
- (See Miller TV ads; Company SPOT)*

57. What are the procedures for Director nominations. How were the nominees selected? Is shareholder input sought in the nomination process?

- Nominations for Directorships must be submitted in writing during a period specified in the By-Laws (Article II, Section 4). Shareholders are always free to submit nominations.

58. On average, on how many Boards of Directors do the company's independent Directors serve? What is the highest number of Directorships held by a company Director?

- On average, the number is 2.
- Highest number of Directorships held by a company Director is 5, (H. Brown).

59. How much stock do the Directors own and, generally speaking, is it an important percentage of their respective portfolios?

- Number of shares owned by Directors can be found on page \_\_ of Proxy.
- We have no way of knowing whether this is an important percentage of their respective portfolios.

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## ENVIRONMENT

1. Why hasn't PM Companies signed the CERES (Valdez) Principles?

- ~~Because~~ <sup>our</sup> statement on Environmental Principles, ~~which was~~ published in 1992, is substantially similar to the CERES Principles in both word and deed.

2. In 1991 the International Chamber of Commerce (ICC) established a business charter for sustainable development. The charter outlines 16 principles that ensures a balance between economic growth and environmental protection. To date, over 700 corporations around the world have formally supported ICC's charter for sustainable development. Why has Philip Morris not yet supported Sustainable Development?

- ~~We~~ <sup>A</sup> agree with the general theme of Sustainable Development.
- ~~However, we believe~~ each company must design and abide by its own principles driven by the nature and scope of its operations.

3. The Environmental Protection Agency has initiated a number of voluntary programs for improving the environment. Programs such as 33/50, which allows industry to reduce the amount of toxic chemicals it uses in manufacturing, and green lights, which encourages companies to switch to efficient lighting fixtures. Why hasn't Philip Morris joined these programs?

- We support the goals of both programs. ~~However, we believe~~ each company must design and abide by its own principles driven by the nature and scope of its operations.

*Requires companies to be held to vaguely defined principles  
involves burdensome reporting and auditing, increased cost.*

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4. The Council on Economic Priorities (CEP) has given Philip Morris its lowest possible environmental rating and urged customers not to purchase any PM products. What are we doing about this?

- The CEP (Alice Tepper Marlin, Director) is a non-profit group in New York that monitors social policies of large corporations. ~~Annually, the~~ CEP sponsors <sup>an annual</sup> a book, "Shopping For a Better World," which led to an inaccurate *Daily News* article accusing PM of doing business in South Africa.
- We contend that CEP's published reports are based on insufficient research and inadequate facts.

#### Clean Water Act Reauthorization

5. Is there a need for Congress to pass legislation to reauthorize the Clean Water Act?

- We have been a supporter of the Clean Water Act initiatives over the past 2 decades, and we continue to support this important program.
- We have formed an intra-company task force to work on the reauthorization of the Clean Water Act to ensure that Congress passes legislation which will guarantee an adequate supply of clean water in the least bureaucratic, but most cost-efficient manner for water users.

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## Beer

### 6. Are you for forced deposits on beer containers?

- Miller opposes mandatory forced deposits as they unfairly single out beverage containers while ignoring 80% of litter and 95% of the solid waste.
- Increases the price of beer and soft drinks.
- 7. • Consumers buying less or traveling to nearby non-deposit states to purchase beverages.
- Beverage containers only comprise about 6% of the municipal solid waste stream.
- 7. • Mandatory forced deposits remove valuable material from curbside recycling programs. In 1992, recovery rates for aluminum beverage containers was 68% and <sup>for</sup> glass containers ~~represents 33% recovery rate.~~
- At last count, there were over 4,000 curbside recycling programs in the U.S.
- 7. • According to Franklin Associates, of the 5 states with critical landfill shortages, 3 are bottle bill states (New York, Connecticut, and Massachusetts).

### 7. What does Miller do with its paper waste?

- Miller paperboard is either recycled or reused.

### 8. Is Miller's packaging recyclable?

- All glass and aluminum containers and paperboard carriers can be recycled through curbside programs or voluntary drop-off centers.

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9. Does Miller use recycled material in its packaging?

- Miller's aluminum cans are made from nearly 100% recycled materials, 50% of which is post-consumer material. Miller's bottles are made from approximately 30% post-consumer recycled material.

10. What has Miller done by way of source reduction?

- Since 1961, the amount of aluminum used in our cans has been reduced by about 45%.
- Since 1986, reduced the weight of our glass bottles by more than 20%.
- Since 1989, reduced shipments to landfills by 72%. By 1995, expect to completely discontinue sending anything from our breweries to landfills.

11. What is Miller doing with regard to the Nature Conservancy Program?

- Miller's contribution to the Nature Conservancy was a one-time donation. Our agreement with the organization expired in 1993, and there are no plans for further support.

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## Food

12. What is KGFI's position regarding cleaning up the environment? What steps have been taken to reduce package waste, industrial pollutants, etc.?
- In the last decade, glass usage has been reduced by more than 30,000 tons.
  - Over the last 3 years, we have reduced the overall weight of packaging materials in our European businesses by some 20,000 tons, at a savings to the company of over \$30 million.
    - Glass packaging reduction alone over the 3-year period amounted to 5,000 tons.
    - Paper accounted for a reduction of 2,200 tons over the time period.
  - In our roast and ground coffees, the inner packaging for vacuum-packed coffee consists of newly-developed synthetic materials with a thin aluminum film. This film has enabled us to reduce aluminum content from 465 tons to 2 tons annually.

## **Resource Conservation Reauthorization Act (RCRA)**

13. What is KGF's position on RCRA, the federal solid waste legislation?
- KGF will continue efforts to assure that food safety concerns are taken into account in any federal solid waste legislation.
  - Market driven recycling and source reduction are working and should be allowed to continue without mandated "rates and dates" set by legislation.

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14. What is KGF's position on environmental marketing claims?

- KGF joined in asking the FTC to issue environmental marketing guidelines, which the FTC did 2 years ago. These "green marketing" guides are a significant step to assure the dissemination of uniform and truthful labeling and advertising information to consumers.
- ~~There are~~ still many conflicting state and local laws and regulations. A uniform national standard is needed to provide one set of rules to facilitate national marketing.

#### Solid Waste

15. What's the solution to the solid waste problem?

- Solving the problem takes a combination of waste management options working together:
  - Source Reduction
  - Recycling
  - Composting
  - Waste to Energy Incineration
  - Landfilling

16. What is KGF's contribution to the solid waste stream?

- 1.0%, by weight, of packaging in the solid waste stream.
- Since packaging is about a third of total solid waste, our contribution is 0.3% of total solid waste.

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17. What is KGF doing about our contribution to the solid waste stream?
- Over the last 10 years, we have eliminated over a billion pounds of packaging from the solid waste stream.
  - We use a half billion pounds of recycled material annually.
  - We were the first food company to use recycled plastics in a food container when we introduced a 24 oz. pourable dressing container containing 25% recycled PET.
  - We support packaging research.
  - *For* A brochure ~~entitled~~, "Working Together to Reduce Solid Waste," is available.
18. What has Oscar Mayer done to reduce the amount of solid waste associated with its packaging?
- ~~We have~~ *R*educed the packaging of our Lunchables by 45%.
  - ~~Likewise, we have~~ *R*emoved all the heavy metals used in inks associated with our packages.

#### Solid Waste/Packaging

19. Doesn't KGF/PM contribute a huge amount to the solid waste burden in the U.S.? What is it doing to change this?
- Over the past few years we have reduced the amount of packaging used by our products, ~~and~~ *we* have been pioneers in the use of recycled plastics, where it has been shown to be safe for food packaging.

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20. Why are so many products in non-recyclable plastic? Kool-Bursts? Capri-Sun? Shouldn't more things be in glass?

- The recyclability of the package is <sup>only</sup> but one consideration. For many applications, glass is perfectly appropriate, but elsewhere it may prove to be too heavy or subject to breakage.
- Some plastics that are not commonly recycled today may be recycled in the future as the recycling infrastructure is developed.

21. Why doesn't KGF/PM use more recycled paper or plastic in its packages?

- For any products designed to be consumed by humans (such as food, beer and cigarettes), the packaging must meet strict purity standards.
- The opportunities for the use of recycled plastics for food packaging are very limited. ~~This is because~~ Technology is not yet available that would ensure that recycled plastics of all types could be purified to the extent necessary to protect food safely.
- Recycled paperboard must meet adequate purity standards, and, must be strong enough to protect the product in all phases of transportation and distribution. (Wet, refrigerated and frozen environments can significantly weaken paper fibers, especially recycled paper fibers.)

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22. What are you doing to reduce Koolaid Koolbursts package or make it recyclable?

- The Koolaid Koolburst package is designed to protect the product.
- The plastic bottle is designed to be able to be recycled as plastic recycling grows.
- The plastic wrap is not extra packaging, but helps keep the product flavor.
- The paperboard holder is made from recycled material.

23. What is KGF Canada doing to reduce packaging waste?

- By the end of 1992, KGF Canada had reduced the amount of packaging material it used by 23% vs. 1988, surpassing National Packaging Protocol requirements set at 20%. ~~As an example,~~
- (KGF Canada has converted its 500 and 750 ml. pourable salad dressing bottle from glass to PET.)
- KGF Canada has been a leading supporter of the "blue box" system, (home recycling at the municipal level supported by industry) and is taking a leadership role in the Grocery Products Manufacturers of Canada's proposed Canadian Industry Packaging Stewardship Initiative. Monies collected from the levies would be used to set up an infrastructure for collecting different materials, facilities for sorting collected packaging materials, and for research and development and commercialization of new environmental technologies.

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## Superfund

24. What is your position regarding the reauthorization of Superfund?

- PM supports the cleanup of toxic waste sites and believes that the Superfund approach to this costly task is generally the proper one.
- However, <sup>A</sup> reauthorization of Superfund must deal appropriately with the liability issue so that companies are not exposed to liability out of proportion to their involvement in any particular site.

## Hazardous Waste

25. Does KGF have any involvement with EPA Superfund Cleanups of hazardous waste disposal sites?

- KGF and its subsidiaries are currently involved in 86 Superfund sites, some of which are still in investigation. The majority of these sites involve waste generated at facilities or businesses which have been sold and for which KGF retains an indemnity obligation.
- KGF is also completing its systematic upgrading and replacement of underground fuel and gasoline tanks. As part of that process we are completing the remediation of any spills or leaks on our existing plant locations.
- Our expected financial contribution to cleanup is small in relation to other affected companies. We do have several sites where we are among the ten largest contributors based on the preliminary allocation of liability.
- We have established reserves which we believe are adequate for our expected financial contribution, or have insurance to cover expected costs.

*move?*

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26. Does KGF have plans to prevent an oil or hazardous substance related accident which could affect a community?

- Food manufacturing does not manufacture toxic materials.
- Food manufacturing does not use or store hazardous materials in any significant quantity except for ammonia which is used in facility refrigeration systems, and for materials used for cleaning and disinfecting of plant processing equipment.
- KGF facilities have developed emergency plans appropriate for the type of facility.
- KGF facilities are taking part in community disaster planning programs designed to prevent or mitigate disasters.
- Additional planning and training for all KGF facilities to be completed this year as part of the KGF Environmental Improvement Project. *more 1994?*

27. Does KGF have any pending cases alleging violations of one or more environmental laws?

- For 1993, there exists one minor administrative complaint of noncompliance at an Oscar Mayer facility in Madison, Wisconsin. The U.S. EPA is seeking \$66,000, which is below the SEC reporting requirement of \$100,000.

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28. What is KGF doing to improve its Environmental compliance status?

- KGF recognized in 1991 that it needed to improve its compliance programming due to the combination of unprecedented changes in personnel, product and facility changes, new and changed regulatory requirements as well as public expectation of environmental compliance.
- A task force of internal technical and legal personnel reviewed our compliance programs and made recommendations to senior management. Those recommendations <sup>were</sup> incorporated in 1994 business and individual performance.
- PM Companies also conducted a compliance assessment.

#### Right-to-Know/Emergency Planning

29. Will PM/KGF share with concerned citizens a list of all chemicals used in its facilities?

- PM/KGF complies with all applicable laws regarding the disclosure of hazardous substances used in its facilities.
- We have elaborate spill control plans and evacuation procedures in place in the event of a problem with those materials.
- Our first emphasis is to prevent the inappropriate release of any substance to the environment, ~~and~~ our efforts are focused on proper training of employees and maintenance of equipment to make certain that unauthorized releases do not occur.

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### Indoor Air Pollution

30. What does KGF/PM do about indoor air pollution at its facilities?  
Smoking?

- Each facility undertakes to make certain that adequate ventilation is provided so that the health or comfort of employees is not adversely affected.

### Clean Air

31. How is KGF/PM complying with the Clean Air Act?

- Our facilities and transport fleets have undertaken appropriate measures to comply with local air quality standards.

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## EXECUTIVE COMPENSATION

### Determination of Executive Compensation

1. How does Philip Morris determine and justify the level of executive compensation?
  - The Compensation Committee of Philip Morris establishes the components of compensation that will be used to compensate our executives. Each component has a different objective.
  - Base salary compensates the executive for performing their day to day responsibilities.
  - The annual bonus compensates the executive for superior achievements over the prior fiscal year.
  - The long-term bonus compensates the executive for achievement of long-range (3-year) goals.
  - The stock option plan links the executive directly to the shareholder, in that as the stock price increases they benefit similarly.
  - Only the base salary is considered fixed, all other components are variable and subject to company performance, attainment of pre-set targets and individual performance.

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## Limits On Deductibility

2. The new tax code places a cap of one million dollars per named executive officer that can be deducted as a compensation expense, unless the compensation is explicitly performance based. For the annual bonus, why did the company choose to maintain the discretionary evaluation of bonus amounts rather than adopting a formula/performance based plan, which results in the loss of the deduction for the amounts in excess of one million dollars?

- The Compensation Committee of the Board of Directors carefully considered the impact of the new tax code provision.
- The Committee evaluates many factors, such as the achievement of overall corporate financial goals, operating company financial goals, strategic initiatives, increase in market share and so forth. In addition, the Committee recognizes that there are external factors, beyond the control of management, that significantly affect year-end results.
- Because ~~of~~ the plan provisions allowing discretionary evaluation by the Compensation Committee, they are able to consider all of these factors in determining the final bonus amount. Therefore, the bonus ~~truly~~ achieves the objective of rewarding executives for significant accomplishments.

## Comments on Executive Compensation

3. How many of the top 5 executives will receive compensation greater than \$1 million?
- For 1993, 4 of the top 5 executives will earn greater than \$1 million.

Check  
after  
members  
have been  
determined!

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## Long Term Incentive Plan

4. A Long Term plan concluded and paid out in 1992. Is there a new program? What is the basis for the award determination? Does it relate to corporate performance?
- A new long-term plan is in place that runs for three years, 1993-1995.
  - Financial objectives for each operating company include: income from operations, cash flow, earnings per share, pre-tax income.
  - Strategic objectives for each operating company include: maximized productivity, comprehensive senior management succession planning, optimization of product price/values.
  - Awards for operating company executives will be based on corporate and their operating company's performance results. Executives from the corporate group will have their awards based solely on corporate results.
  - The specific financial objectives and strategic initiatives were selected because the successful achievement of these factors generally results in an increase in stock price. Furthermore, there are objectives that specifically relate to other measures of corporate performance, such as market share, cash flow, etc.

## Comments on the New Stock Plan

5. A new stock plan is being presented for approval. Why is a new plan necessary, given that the prior plan was just approved in 1992?
- To meet the performance based requirements established by the Omnibus Budget Reconciliation Act of 1993, the Stock Option Plan, under which the options are granted, must meet two primary criteria. Our plan met one of the two, so a new plan needed to be presented which incorporates both.
  - First, the plan must be performance based. The PM stock option program provides for shares to be issued at fair market value or at a premium to the market value, so an option is inherently performance based.
  - ~~The second criteria for stock options is that~~ the plan governing option distribution must ~~also~~ specify the maximum number of shares that can be awarded to an executive. The 1992 plan did not specify this and so it needed to be revised.

## FASB's Efforts to Change Accounting for Equity-Based Compensation

6. Now that FASB has announced that it will require a charge to earnings for stock options (assuming final approval), will Philip Morris discontinue granting options?
- We continue to believe that stock options are an effective means of  
— motivating management, encouraging ownership of <sup>PM</sup> Philip Morris shares,  
— and further aligning shareholder and management interests.
  - However, <sup>B</sup>Based on the financial impact of the charge, and the responses of other Fortune 500 companies, we may modify our program.

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## Executive Compensation to Stock Performance

7. The shareholders sustained a significant loss of value when the stock plummeted from the mid-80's to the current level of about \$60. Have the executives' compensation been similarly affected?

- ~~For our senior management,~~ <sup>A</sup> approximately two-thirds of the compensation paid to the executive officer group is variable incentive compensation, ~~which is~~ comprised of stock-based and cash incentives, both long-term and short-term.
- <sup>(in 1993)</sup> This past year=1993, a decision was made to implement a strategic plan that would significantly improve the positioning of the company for long term success and profitability. <sup>This led to</sup> However, ~~for the past year,~~ <sup>in 1993,</sup> the financial results ~~have been~~ below plan and the executives' annual incentive awards have been reduced. ~~And,~~ <sup>T</sup> their stock options have also lost value.

- <sup>←</sup> yes they have.

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## Impact of Stock Price Change on Option Award Size

8. The current price of Philip Morris stock is significantly below the high value of 1993. Yet, the proxy shows that the executives received more shares of stock than last year, and the total amount distributed to stock-eligible employees is much higher as well. What is the reason for this?

- ~~First,~~ the size of stock option grants, expressed in dollars, is based on competitive practice and is targeted at the 55th percentile of our peer group. The dollar amount of the stock option grant represents an investment opportunity. Increases in stock price result in a fewer number of shares being granted and decreases in stock price result in more shares being granted. <sup>Ignoring</sup> Holding other factors constant, to provide a consistent investment opportunity, a decrease in stock price would result in a grant of more shares.
- Second, although the company's competitive pay objective has not changed, ~~from the 55th percentile,~~ the 55th percentile has increased somewhat from <sup>prior</sup> last year. This increase ~~also~~ resulted in more shares being granted to executives.
- Additional response if necessary: On a year-to-year basis, even though the number of options <sup>grants</sup> increased, the total investment value, as determined by the Black-Scholes model decreased.

As an example:

	<u>1992 Options</u>	<u>1992 Grant Date Present Value</u>	<u>1993 Options</u>	<u>1993 Grant Date Present Value</u>
Michael Miles	75,000	1,611,750	125,000	1,153,750
William Murray	54,870	1,179,156	92,350	852,391
Geoffrey Bible	36,400	782,236	91,720	846,576

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## Use of Change-In-Control Agreements

9. Why does Philip Morris continue to need change-in-control agreements for senior executives?

- Change-in-control severance and employment arrangements <sup>help</sup> aid in the recruitment and retention <sup>win</sup> of key employees by assuring satisfaction of compensation and benefits expectations and requiring fair treatment in the event of a change-in-control. ~~Equally important, by reducing the~~ <sup>Help P</sup> personal uncertainty and anxiety arising from a takeover situation, <sup>such</sup> ~~such~~ <sup>help</sup> arrangements ~~help to~~ assure full and impartial consideration of takeover proposals by management.

## Compensation Committee Retaining an Outside Consultant

10. Does the Compensation Committee retain a separate independent compensation consultant and if not, why?

- The Compensation Committee has not retained outside compensation consultants.
- The Committee has had access to and reviewed compensation survey data and comparisons conducted by independent consultants.
- Management recommendations and presentations to the Compensation Committee are previewed with independent consultants who in turn advise the company on the appropriateness and reasonableness of these actions or observations.

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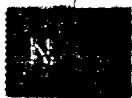
## Executive Stock Ownership Requirements

11. What is Philip Morris' position on forcing top management employees to hold and own shares after exercising options?

- We cannot require and *force* our senior executives to purchase <sup>or</sup> ~~and~~ hold shares, ~~and beyond that~~ <sup>certain</sup> enforce a ~~maintained~~ level of ownership.
  - We ~~want to~~ strongly encourage ownership of company stock.
  - We believe that there is a *reasonable* minimum range within which our senior executives ought to own shares and make the corresponding financial commitment and sacrifice.
- ( ? )

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## HEALTH

### Food

1. Is Kraft worried about cholesterol in its cheese products?

- While dairy products contain both fat and cholesterol, eating them as part of a balanced diet remains a good practice for the majority of consumers. The new FDA "Food Pyramid" includes dairy and cheese products as part of a balanced diet.
- We are interested in finding ways to provide consumers with choices.
- We market several lines of cheese products that are reduced in fat and cholesterol.
  - Kraft Light Natural Cheeses and Cracker Barrel Light Natural Cheese are low in cholesterol and have 1/3 less fat than regular cheese.
  - Kraft Light Singles are low in cholesterol and also have 1/3 the fat of regular Kraft Singles.
  - Light Philly Brick contains 1/3 less fat than regular cream cheese, while Light Philly Soft contains 50% less fat and is low in cholesterol.
  - Kraft Free Singles have less than 1/2 gram of fat per 1 oz. serving.
  - Velveeta Light which is low in cholesterol and has 1/3 less fat than regular Velveeta.

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## Health Claims

2. Why doesn't KGF stress the health benefits of its products more?
  - A "food" is not healthy or unhealthy by itself. Claims about the health or nutrition benefits of a specific food item must be made under the current regulations regarding health claims on labels and in advertising which are undergoing revision.
3. Doesn't KGFI's expansion into developing areas of the world encourage people to adopt the unhealthy eating habits of Americans?
  - We produce food products of the highest quality, safety, hygiene, and nutrition for consumers who wish to buy them, wherever they live.
  - As standards of living increase in developing countries and communications and knowledge of their cultures grows, there also comes a desire for increased access to many goods and services from the West.

## Heart Association Seal of Approval

4. Why don't KGF products bear the Heart Association Seal of Approval?
  - "Seals of Approval" by third parties are frequently somewhat deceptive, since they may not be based on objective criteria, may require that a sizable fee be paid, or may focus inappropriately on particular types of food or particular nutrients to the exclusion of others. These seals typically imply that a particular "food" is healthy, instead of focusing public attention on the total diet.

2022992203

## Children's Advertising

5. Don't you, as a company, have an obligation to educate children about proper nutrition?
- Since 1987, we have provided more than \$6 million to organizations that conduct nutrition programs or provide nutrition information.
  - There has to be a concerted effort among parents, educators and the public and private sectors.

## Environmental Tobacco Smoke

6. Is smoking a health risk?
- PM acknowledges that smoking is a risk factor for certain human diseases, and we believe consumers are aware of these potential risks. Warning labels have been on cigarette packs for more than 25 years.
7. Has EPA's risk assessment on environmental tobacco smoke (ETS) increased the trend of both public and private smoking bans? What will be the impact on Philip Morris' revenues?
- Recent surveys demonstrate that most Americans favor policies of accommodation for smokers and non-smokers alike, instead of smoking bans. So while there has been an initial trend toward more smoking bans, we are hopeful that the public's desire for accommodation policies will lead to more reasoned decision by public officials.
  - Extensive smoking bans could affect our sales.

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8. What is PM's response to the claim by the EPA that exposure to ETS increases the risk of respiratory problems in children?

- A growing number of complaints of childhood respiratory problems are associated with poor indoor air quality in schools and day-care centers where ETS is not a factor.
- The scientific studies have not shown that ETS, as opposed to other factors, is responsible for respiratory diseases in children.
- Other factors, such as socioeconomic factors, exposure to contagion and indoor pollutants have all been linked to respiratory illness in children.
- Studies EPA has relied on are inconclusive and inconsistent with at least 25 other independent studies that report no statistically significant association between respiratory disease in children and ETS.

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9. The EPA report stated that ETS has been found to cause cancer in non-smokers and respiratory illness in children. Under the circumstances, how can PM USA oppose smoking bans?

- We believe the EPA report was seriously flawed, and its conclusions were not justified by the facts. As you may know, we joined other members in the tobacco industry in filing suit against the EPA to overturn the findings of the report.
- However, PM USA does believe that indoor air quality needs improvement. The real problem is not tobacco smoke, but buildings with poor ventilation systems or poor ventilation system maintenance. Where adequate ventilation exists, policies that accommodate smokers and non-smokers are the answer. If ventilation is inadequate, banning smoking will not prevent poor indoor air quality.

#### **Health Care Reform/Excise Taxes**

10. Should excise taxes on tobacco and alcohol products be increased to pay for the cost of health care reform?

- Philip Morris supports health care reform. However, we share the widely held view that controlling escalating health care costs should obviate the need to raise taxes. However, if additional revenue proves necessary, it should come from broad-based, equitable taxes, and not from excise taxes, which are regressive.

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## HUMAN RESOURCES

### Affirmative Action and Diversity

1. What has been done about the harassment situation at Fulton Brewery / Miller Brewing Company?
  - Allegations of harassment at Fulton are the subject of litigation; so, of course, we cannot comment on that.
  - Philip Morris has a corporation-wide policy prohibiting any form of harassment.
2. There have been terminations of certain black managers at Philip Morris, such as Allene Roberts. What is being done to ensure a fair and impartial hearing for these individuals?
  - Although we will not address any particular termination case for obvious reasons, each Philip Morris employee has his or her internal chain of command in each unit to voice concerns about fairness.
  - There is also a Human Resource staff person, up to and including the senior vice president of Human Resources, as another channel to receive a fair and impartial hearing.
3. There is a contracting work force at Philip Morris to meet (future) business objectives. What is being done to ensure the affirmative action progress obtained thus far is not wiped out with one layoff?
  - We continue to make affirmative action progress despite workforce reductions. Each business unit head is responsible to monitor and track employment demographics at the time of any reduction in force.
  - Twice a year, an Affirmative Action and Diversity Committee of the Board formally meets to review trends and ensure diversity progress continues.

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4. What has been accomplished in affirmative action, diversity, or within Philip Morris's commitment to be a socially responsible corporation?

- In the area of employment, the percent of representation for women, African-Americans, Hispanics, and Asians has increased even though the domestic work force has decreased over 7% in the last 4 years.
- 1 of every 4 PM employees is a person of color.
- Nearly 1 of every 3 Philip Morris employees is a woman.
- Of professional/managerial employees, 16.3% are people of color and 28.1% are women.
- Of vice presidents (i.e., salary grade 18+), 7.4% are people of color and 9.2% are women.
- Of the Board of Director representation, 10.5% are people of color and 10.5% are women.
- We also have a Minority Vendor Program, and in 1992 we spent \$315 million with minority vendors, suppliers, or contractors. In addition, we anticipate over \$1 billion in expenditures over the next 3 years.
- Also, nearly 1 of every 5 of our philanthropic contributions dollars supports diversity-related projects and programs.

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## Sexual Orientation

5. What is PM's policy with regard to the sexual orientation of its employees?
- We do not discriminate on the basis of sexual orientation.

## Workplace Monitoring

6. What is PM's policy with regard to monitoring employees in the workplace?
- Legislation pending in Congress would unduly restrict the sorts of normal activities that most employers perform, such as tracking the location of vehicles. If employees are alerted that telephone messages, computer files, etc., may be monitored by their employer, there should be no reason to restrict such behavior.

## Management Development

7. Please explain the management development initiatives in place in PM to provide international and cross industry experience to employees to develop successors to top management.
- We have a succession planning process and management development and training initiatives in place.
8. What are the tangible initiatives PM is undertaking to reduce costs?
- 8,000 employee positions have been eliminated (or consolidated with others) in the past 2 years.
  - Since 1989, 29 plants have been closed and more are being studied.
  - Also, total quality management is in place across the corporation.

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9. How does the company plan to attract and retain top talent in light of the negative publicity surrounding tobacco?
- We have no problems attracting and retaining top talent.
  - We have an environment that fosters the team approach and employees are encouraged to step forward and take risks, think creatively, voice their opinions, and strive to make a difference. This gives our workers a sense of empowerment.
  - We have solid management development initiatives in place to enhance an employee's career growth and increase their knowledge and skill base. In line with this, our compensation and benefit programs are positioned very competitively in the marketplace.
10. What changes are being made in the businesses to increase the speed and effectiveness of the organization?
- The first is a substantial reduction in our worldwide work force.
    - 21 plants closed since 1991
    - 8,000 employee positions eliminated (or consolidated with others).
  - Increased productivity through streamlined organizational layers, improved synergies between businesses, reduced overhead, and other factors. Since 1989, sales per employee increased 25.4% and profit per employee increased 26%.
  - Organizational synergies and management efficiencies:
    - Kraft and Jacob Suchard in Europe
    - Food and tobacco in Latin America
    - Oscar Mayer and Kraft USA
    - Frozen and Lender's into GF USA.

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11. What is PM doing to ensure that it will have a future generation of business leaders who have the experience and perspectives to compete in a global economy? -
- Strengthening our succession planning process.
  - Moving people between businesses. For example, 192 of our successors work in totally different businesses from a year ago (1992-1993). That's up 200% from 2 years ago.
  - Dramatic developmental moves; i.e., John Bowlin to Miller Brewing.
  - Performance Management System.
  - Tightening our appraisal process.
  - Developing a "Core Curriculum" of training focused on critical skills, business issues, and building a shared culture and values.
  - Through a mobility survey, we identify employees willing to move.
12. Many corporations are bringing in outsiders to inject new ideas into their corporations. Does Philip Morris have plans to do the same — particularly in the domestic cigarette area? If so, why? If not, why not?
- Our corporate strategy is first to develop and promote our own employees, and secondly to selectively bring in new talent from the outside.
  - Approximately 85% of our positions are filled from within.

### **Work and Family Balance**

13. What is Philip Morris doing to support work and family balance issues?
- Most of our operating companies have made progress in this area through child care referral assistance, on-site services, elder care referral assistance, flexible working hours, and so on.
  - More to come

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## Workforce Reduction

14. In your effort to streamline operations and reduce expenses, were any open window or workforce reduction programs implemented in 1993? Were the cost-savings goals achieved and are additional programs planned for 1994? Could executive salaries have been reduced, so as to save some employees' jobs?

- To reduce expenses and promote efficiencies in both their operations and management, some of the operating companies implemented workforce reduction or early retirement programs.

<u>Workforce Reduction/ Open Window</u>	<u># of Employees</u>	<u>Long-Term Savings</u>
Corporate	44	\$3,200,000
PM USA	483	39,400,000
PMI	42	4,062,000
Miller	<u>353</u>	<u>14,600,000</u>
Total	922	\$61,262,000

- There will be additional workforce reductions to the extent necessary to streamline operations.
- The annual cost savings from the reduction in force/open window plan results in a much greater dollar amount than the combined compensation basis, reducing the executives' salaries would not result in a significant cost savings.
- Employee costs will be stringently managed.
- Salary structures will be frozen for this year.
- The Merit Increase Guidelines will be calibrated to the rate of inflation.

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## Health Care Reform

15. The new Clinton Health Plan has been released, and will now be discussed and debated in Congress, pending modification. How will this plan affect Philip Morris, benefits coverage for employees and the associated expenses?

- Philip Morris has been aggressively addressing the issue of health care cost containment. The revisions that we have made are consistent with the direction of the proposed guidelines, so we are well-positioned at this point.
- As the Clinton plan now stands, the new standard benefit package would require three plans: fee for service plan, point of service plan, and an HMO. Philip Morris managed care plans provide similar health-care coverage to that required by the federal plan. We are also ahead of other companies in already having access to the existing networks.
- We expect that the final plan will be vastly different from the one originally proposed by President Clinton.

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## Family and Medical Leave

16. "The Family and Medical Leave Act of 1993" gives employees access of up to 12 weeks of unpaid leave for the birth or adoption of a child, and the serious illness of the employee, family member, or parent. Health benefits are continued during the period of absence on the same terms as for other active employees. What is the company's position on this new legislation?
- Philip Morris has had a policy that employees could receive up to five months of unpaid parental leave and up to six months of unpaid medical leave at the discretion of management. The policy will continue to provide the same benefits except that the first twelve weeks will not be subject to management discretion.
  - The legislation would not cause the company to incur excessive costs, since the leave time is unpaid. The company would incur costs for the continuation of benefits during the leave.
  - These policies increase our chances of retaining the type of personnel that PM seeks to hire because it provides a way for them to attend to family needs without severing their ties to the company.
17. Has this statute disrupted PM/KGF operations?
- No.

## Tobacco

### PM USA restructuring information found in "Restructuring" section.

18. What has been the impact of workforce downsizing in Richmond and elsewhere. Will there be more?
- Since 1991, the PM USA workforce has been reduced by more than 10%.
  - TK

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19. Given the legislative climate in New York, does PM have plans to move corporate and/or PM USA headquarters elsewhere?
- There are many legislators in the state and city who appreciate our presence, both as an economic contributor and a supporter of cultural and community programs.
  - We did conduct a feasibility study of moving PM USA headquarters to Richmond. We determined that the potential benefits of such a move would be more than offset by the loss of many dedicated, experienced employees, and we decided not to pursue this matter further.
20. How can you justify layoffs and plant closings while you're adding cigarette production volume through plant acquisitions overseas?
- Domestic downsizing and overseas acquisitions are 2 separate issues, and it does not make sense to link them. Through our overseas acquisitions, in addition to obtaining factories, we acquire local brands that appeal to local tastes, and we also gain immediate access to key local distribution systems.

### Food

Information on Kraft restructuring not available. Data will be placed in the "Restructuring" section.

### Beer

Fulton closing information found in "Restructuring" section.

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## **LABELING**

### **Beer**

#### **Alcohol Content Labeling**

1. What is your position on alcohol content labeling?
  - This past year the courts lifted a long standing ban on alcohol content labeling. Alcohol content may not be placed on labels at the option of the individual states. For the sake of economizing production costs, we would prefer uniformity among the states rather than a patchwork of individual state laws and regulations.
  - This change favors consumers by providing them with information that may be useful in making purchasing decisions.

### **Food**

#### **Nutrition Labeling Law**

2. What is KGF's position on the new food labeling laws/regulations?
  - On the whole, we support mandatory nutritional labeling. KGF supported the original legislation, and filed extensive comments in response to the NLEA rulemaking.
  - Complying with the new regulations by changing every one of our labels will require a massive effort, and involve considerable expense. But we are confident that we can meet the May 1994 deadline and fully comply with the law and regulations.

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## Nutrition Labeling & Education Act

3. Will KGF revise its labels to comply with the new law?
  - Yes. KGF products will have new labels by May 1994 to comply with the Nutrition Labeling & Education Act.
4. How is KGF responding to the NLEA Food Labeling Regulations?
  - We are in the process of changing all of our labels to comply with the new regulations. Many of our products already have new labels, and all will be in compliance by May 8 the effective date.
  - KGF supports the FDA's efforts in this area.
5. How costly will it be for KGF to comply with the new requirements?
  - We do not have a specific estimate but expect that the costs will be tens of millions of dollars. These costs will vary depending upon how particular products are positioned to respond to the regulations.
  - In general, there are scale advantages to labeling compliance and so we feel we are well positioned versus our competition on a per-product basis to comply with the new rules.
6. How will NLEA affect refrigerated pasta and sauces labeling?
  - All DiGiorno labels will be changed to be in compliance with the new NLEA regulations.

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7. What will be the impact of NLEA regulations on AAGC's healthy products?
  - Preliminary indications are that NLEA will have very limited impact on AAGC's frozen businesses. Most products already meet all federal labeling requirements for "Light" products and minor reformulations are expected in only a few items.
8. When will Oscar Mayer nutritionally label its products?
  - Oscar Mayer supported the Department of Agriculture's initiative for the detailed nutritional labeling of meat and poultry products. All products will carry the nutritional information by July 1994.
9. What will the impact of NLEA be on KGF Canada?
  - On finished food products being shipped to the U.S., a label that complies with NLEA format will be required. This is no different than the requirement for U.S. products to meet Canadian regulations, as under the Free Trade Agreement. The basic requirement for each player is to meet the regulations of the country of destination.
10. Why doesn't (product) have the new label on it now?
  - FDA requires that products it regulates must comply with NLEA by May 1994. USDA products must comply by July 1994. We are in the process of converting now and will meet compliance deadlines.
  - A number of our products are already featuring new labels, and we will continue to change over as supplies of existing labels are depleted.

11. What's the earliest that KGF products with the new label will appear in stores?
- Products with the new labels began appearing in stores in the third quarter of 1993.
12. Now that (product) is "mislabeled" according to the new regulations, doesn't that mean you are deceiving consumers?
- No, absolutely not. The new regulations are not based on any finding of deception – they are based on newly conceived standards and definitions.
  - All our products comply fully with current regulations and once the new regulations go into effect, they will comply with the new regulations as well.
13. What can consumers expect now that the new labeling requirements are out?
- Gradually, over the next year or so, consumers will see changes in the labeling of virtually every food product. Almost every food product will have a nutrition panel.
  - Product labels will include additional nutrition information to help consumers determine the nutritional content of foods for comparative purposes and planning diets that incorporate a variety of foods.

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14. What will KGF's role be in educating consumers about the new label?
- We have a number of ways in which we provide information to consumers, including our 800 numbers.
  - We have developed a nutrition education program called "A Matter of Balance." This includes:
    - consumer brochures
    - funding for an 800 number at the American Dietetic Association; and
    - grant to ADA to provide extensive outreach to media, the most frequent source consumers use for nutrition information.
15. Do you anticipate that there will be pressure to strengthen the EC Directive on labeling for more disclosure based on new labeling requirements in the United States?
- Labeling is a complex issue in all countries. It's a balancing act between the consumer's right to information (amount, degree, nature, and prominence of that information) and the practical aspect of providing clear information within a limited amount of space.
  - We support any reasonable and practical proposals which reflect this balance.
  - The situation in the EC is not different from other countries. There, it is simply more complex as efforts are made to harmonize 12 different sets of labeling and language requirements.

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## State Dairy Product Labeling Regulations

16. How does KGF/PM respond to local dairy labeling laws?

- We comply with all applicable laws. We believe that consumers are better served by uniform federal labeling laws, and compliance with local laws tends to increase costs and confuse consumers.

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## Product "Downsizing"

17. Isn't it misleading to consumers when you reduce the amount of product in your packages, and don't call attention to that fact through special labels?

- No. All of our labels disclose the net weight of ingredients as required by law, and there are regulations against slack filling of packages.
- Periodically, there are general complaints that reducing package sizes can result in "hidden" price increases. It must be remembered that retailers, not manufacturers, set consumer prices and most major retailers provide consumers with "unit price" information at the point of purchase.
- In some cases, the weight of the product is reduced, while the "yield" remains the same:
  - coffee, due to new roasting technologies; and
  - beverage mixes, due to new sweetener.
- In some cases, a decrease in weight not only does not affect yield, but represents a quality benefit for the consumer:
  - Beverage mixes (Kool-Aid, Country Time, Tang) recently changed sweeteners from sucrose to a sucrose/fructose blend, resulting in lower sugar content.
- In some cases, weight reductions are used to avoid otherwise unavoidable price increases due to increased manufacturing costs.
- By requiring labels saying "less" or "reduced" on packages, we would inevitably confuse consumers.
  - Less than "what"? Less than "when"?

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18. KGF sometimes reduces the amount of product sold without changing its package. Isn't this unfair?

- When this occurs, we generally note that the package is a "new size" on the label. In addition, the net weight or volume of our products is always accurately and prominently labeled on the package. In some cases, changes in formulas or processing may reduce the amount of product contained in a package, but production efficiencies may dictate that the package size not be changed.

### Tobacco

#### PMI

19. Are health warnings in place on all packs now?

- To be updated: This program is in place in almost all countries in which we do business. There are some exceptions where old stock is being depleted before the new stock is used.

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## LEGISLATION

### Tort Reform

1. Will Congress pass product liability reform legislation?
  - For over 10 years, Congress has considered uniform product liability legislation without passing a bill. While it's expected they will consider such legislation again, the proposal is not expected to pass.
  - The prospects for reasonable, balanced tort reform legislation are much better at the state level.
2. What is PM's position on tort reform, and how are we trying to impact legislative decisions?
  - Currently the unpredictability of the U.S. legal system increases consumer costs, stifles competition, and inhibits innovation.
  - To redress this imbalance, we are participating in national and state tort reform coalitions, such as the American Tort Reform Coalition.
3. Why does Philip Morris oppose legislation to limit the ability of trial courts to issue protective orders in litigation that keeps information about product defects or other public hazards away from the public?
  - Existing court rules generally grant trial judges discretion to keep information confidential. This allows protection of trade secrets, personal medical records, or other information produced during the discovery process and not introduced at trial which could be taken out of context.
  - The plaintiff's bar hasn't shown that trial judges are abusing this discretion.

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## FTC/Commercial Advertising

4. Does PM support efforts to pass legislation that would reauthorize the Federal Trade Commission (FTC) and permit it to use its "unfairness" authority against commercial advertising?
  - We support efforts in Congress to reauthorize the FTC, which regulates national advertising. However, the FTC's current statutory unfairness authority is vague, highly subjective, and subject to abuse.

## Deregulation/Risk Assessment

5. Is PM a strong supporter of across-the-board deregulatory initiatives?
  - We strongly support a requirement that federal agencies defer making risk assessments and/or regulations based on risk assessments until action is taken to ensure that risk assessments are based on sound science.
6. What is the PM position on package recycling legislation?
  - PM supports recycling as one solid waste management technique to help solve the solid waste problem. We also have limits to the amount that we can reduce our packaging and still maintain the proper strength to protect the product. Because of the importance of food and product safety, we cannot support legislation that requires us to make packaging changes without regard to food safety concerns.
7. Do we anticipate more "rates and dates" proposals for mandated recycling in 1994?
  - State affiliates of the Public Interest Research Group (PIRG), an advocacy group led by Ralph Nader, are expected to push such legislation in numerous states in 1994.

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## Beer

### **Alcohol Initiatives**

8. Could you detail your opposition to legislation which would mandate health warnings on alcohol advertising?
- Numerous studies have demonstrated that these warning messages do not reduce alcohol abuse among any segment of the population. Instead of accomplishing its objectives, these proposals divert attention and resources from other effective programs that we support to combat abuse.

## Food

### **FDA Enforcement**

9. What is KGF's position on the legislation that would give additional enforcement authority to the FDA over the food industry?
- The FDA has shown that its existing powers and enforcement mechanisms – including the threat of adverse publicity, judicially-enforced sanctions, and strict criminal liability – can be most effective in ensuring industry compliance.
  - Strong leadership, aggressive risk-based enforcement, and efficient management are the keys to an effective FDA.

### **FDA User Fees**

10. Does KGF believe food industry user fees are a proper way to help fund FDA operations?
- Since the FDA regulates industries which comprise nearly 25% of GNP, we feel that more realistic budgeting and a greater federal funding commitment, not ill-conceived user fee schemes, are needed to improve the agency's operations.

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## Food Safety

11. What is KGF's position of "food safety" legislation that seeks to ban or severely limit the use of pesticides in the production of food?
- The zero-tolerance approach of the so-called "Delaney Clause" is based on antiquated notions of food safety, given modern scientific capabilities that can detect chemicals at very low levels that may pose only a negligible public health risk or no risk at all.
  - Legislative efforts to resolve the problems created by the Delaney Clause should be guided by modern scientific and risk assessment principles, and should allow the FDA to approve safe food ingredients and the EPA to set pesticide tolerances based on a risk standard where the benefits of pesticide use are considered.

## Food Nutrition Advertising

12. What is KGF's position on food advertising in light of the new rules that regulate nutritional information that can be placed on food labels?
- Harmonization of the FTC's approach to food advertising with USDA and FDA food labeling regulations is the correct policy to pursue. The FTC has broad statutory authority to prohibit false or misleading advertising.
  - Important differences between food labeling and advertising must be recognized, and the FTC agrees with our position.

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## Diet Supplement Legislation

13. Why does KGF oppose legislation that would require the FDA to subject diet supplements to regulations far less stringent than that applied to foods?
- KGF believes in a level playing field among competitors, and this legislation would not accomplish this goal. We supported passage of the Nutrition Labeling and Education Act, and as of May 8, 1994, virtually all food labels will have to conform to a new set of standards promulgated by the FDA.
  - Dietary supplements should be regulated in a manner consistent with foods under the NLEA.

## Downsizing or "Packaging Shorting"

14. What is "downsizing" legislation, and what is Philip Morris' position on such legislation?
- Downsizing legislation would require manufacturers to place a notice on a package or shelf if the contents of a product have been reduced but the package has remained the same.
  - Philip Morris believes that grocery products are accurately labeled as to weight, serving size, and price, and that downsizing legislation is unnecessary.
15. What is the outlook for the dairy program in the 1995 Farm Bill?
- The debate over the future direction of dairy policy has been underway since 1990. With increased federal budgetary concerns, the industry, producers, and processors are trying to find common areas of agreement.
  - It is too early to tell, however, what sort of changes will be made in the 1995 legislation.

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## Leaf

16. The new U.S. leaf law is being criticized as going against the spirit of GATT. Why did PM support this initiative?
- This was a grower-driven initiative. The American tobacco farmers have been under strong economic pressures in recent years.
17. Given PM's multinational business structure and its global tobacco sourcing, did PM support the U.S. leaf law?
- This was a grower-driven initiative. The American tobacco farmers have been under strong economic pressure in recent years.
18. Why did PM USA support the recently enacted Ford Amendment, requiring U.S. cigarette manufacturers to use at least 75% U.S. grown tobacco in their products during each calendar year?
- In passing this law, Senator Ford sought to bring stability to the domestic tobacco program and ensure the long-term viability of tobacco production in the U.S. PM USA believes the U.S. tobacco farmers produce the finest tobacco in the world, and Senator Ford's goals were consistent with our own.
  - PM USA is the largest purchaser of U.S. tobacco. PM has relied less on imported tobacco than our competitors, so the Ford amendment strengthened our competitive position.

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19. What is the impact of the 75% domestic leaf legislation on PM USA?
- We supported the legislation for two reasons: First, we felt it was critical for the long-term viability of the federal tobacco program and domestic tobacco growers; and
  - Since we use such a high percentage of domestic leaf in our brands, we felt that this legislation would insure an adequate supply of U.S. grown leaf for the long term.
20. How will the new U.S. leaf law affect PM's business internationally?
- This new law affects U.S. manufactured cigarettes. Overall, PM will be largely unaffected by the law. U.S. leaf has always been, and will continue to be, by far the largest component of our cigarettes.
  - As Philip Morris International continues to expand its production, the company will have increasing demands for high quality leaf tobacco; i.e., primarily high-quality U.S. leaf.

### **Tobacco Program**

21. Why does PM USA support the Federal Tobacco Program?
- U.S. flue-cured and burley tobacco is the backbone of our brands. The tobacco support program assures a stable supply of tobacco at relatively stable prices, which is in PM USA's best interest.

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### FDA/CPSC Jurisdiction

22. What is the prospect for enactment of legislation to place tobacco products under the jurisdiction of the Food and Drug Administration (FDA) or Consumer Product Safety Commission (CPSC)? What impact would such legislation have on the cigarette industry.
- It is unlikely that tobacco products will be placed under the jurisdiction of the FDA or the CPSC, because it's wholly unnecessary. Congress, the FTC, the FCC, the Department of Health and Human Services, the Treasury Department, and the Agriculture Department already have extensive regulatory authority over various activities in the industry.

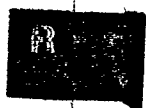
### Synar Amendment

23. What is the status of HHS's (Health & Human Services) development of regulations designed to enforce the Synar Amendment? How will the Synar Amendment be enforced?
- The basic aim of the Synar Amendment is to prevent minors from illegally purchasing and using tobacco products.
  - The content of the HHS regulations was debated last fall. We and the rest of the tobacco industry and industry allies fought strongly against unfair and unnecessary over-regulation. The final version of the regulations is now in place.
  - [More information to come in first quarter 1994].

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## LITIGATION

### Human Resources

1. What is the status of the human rights claims at Fulton Brewery that were covered by the New York Times?
  - Three major employment related cases involving the Fulton Brewery remain active. We do not feel that their claims have any merit.
2. Are there any class action lawsuits that have been filed by any group as a result of the closing of the Fulton Brewery?
  - We are not aware of any class action lawsuits that have been filed as a result of or related to the Fulton Brewery closing announcement.
3. What has been done about the harassment situation at Fulton Brewery / Miller Brewing Company?
  - Allegations of harassment at Fulton are the subject of litigation; so, of course, we cannot comment on that.
  - However, Philip Morris has a corporation-wide policy prohibiting any form of harassment. Any suspicion or charge of harassment at Fulton, or elsewhere, is taken very seriously and acted upon.
4. What is the company's position on the lawsuit brought by former employees at the Kraft Decatur, Georgia plant?
  - A few employees have filed a lawsuit challenging the company's severance pay practices. Those employees who have complied with the requirement that a release be signed have received their full severance benefits. Only a handful have failed to comply with the requirements. KGF has filed a motion to dismiss the case and is confident that there has been no violation of law. A decision is expected at any time.

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**CONFIDENTIAL**

5. In the later portion of 1992 you terminated Allene Roberts, a black woman who had 25 years with the company, building successfully a good reputation for Philip Morris with minority constituencies all over the country. We understand that she was asked to leave and was escorted from the building. Is this an example of the company's commitment to diversity for long-term minority employees?

- (Allene Roberts was a Manager of Public Programs in the Corporate Affairs Department and a 25-year employee. She was terminated in November 1992. In December, she sued the company alleging race and sex discrimination and defamation of character).
- No. This matter relates only to one former employee, Mrs. Roberts, and in no way affects Philip Morris' total commitment to diversity within its workplace.
- Regrettably, Mrs. Roberts was let go after a general audit of her department which focused partially on the activities and practices of the people in that department. Questions were raised about her activities and practices. Specifically, those questions related to violations of expenses and contracting policies to which all our employees, with 25 days or 25 years of tenure, must adhere.
- It was in consideration of her 25 years of dedicated service that she was given months to resolve the questions. In the end, Mrs. Roberts' positive accomplishments could not be permitted to offset apparent misconduct which was discovered in the audit and which was discussed with her in great detail before the action was taken.

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- We are well aware that over the years while she worked for Philip Morris, Allene Roberts made many friends for this company. She did so by representing accurately to the community Philip Morris' commitment to social and economic justice. We hope that whatever the outcome of the litigation with Ms. Roberts, those friendships based on that commitment can endure.

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## Seinfeld v. Bailey

6. We have heard about Seinfeld v. Bailey. What is it, and what is its posture?

- On April 7, 1992, a shareholder derivative action styled Seinfeld v. Bailey, et. al. was filed in New York State Supreme Court, New York County, alleging that in September 1991, Philip Morris Companies Inc. ("PM"), a Virginia corporation, improperly awarded shares of restricted stock and stock options to the company's former chairman, Hamish Maxwell. The complaint alleges that the grants were unlawful and wasteful gifts of corporate assets which were not properly authorized by the Board.
- Subsequently, defendants moved to dismiss, asserting that because the grant occurred in January 1991 at a time when plaintiff was not a shareholder, plaintiff lacked standing to bring the action. Plaintiff's counsel later moved to intervene with a new plaintiff-shareholder. Defendants cross moved to oppose the intervention and have amended the original motion to dismiss by adding a second ground for dismissal, *forum non conveniens*.
- On December 9, 1992, the matter was submitted to Judge Peter Tom, who granted defendants cross motion and dismissed the action on April, 1993. Plaintiffs have appealed the dismissal. Oral argument on the appeal was taken in New York Supreme Court, Appellate Division, First Department on December 1, 1993. A decision is expected in the first quarter of 1994.

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## In Re Philip Morris Securities Litigation

7. We have heard about In Re Philip Morris Securities Litigation. What is it, and what is its posture?

- On April 2, 1993, Philip Morris Companies Inc. and certain of its officers were named as defendants in the first of several purported shareholder class actions which were filed and later consolidated in the United States District Court for the Southern District of New York as In Re Philip Morris Securities Litigation.
- These lawsuits allege that the company violated federal securities laws by making false and misleading statements concerning the effects of discount cigarettes on the company's premium tobacco business in the period January 7 to April 2, 1993, the latter of these being the date upon which the company announced changes in its marketing and pricing strategies for both premium and discount brands.
- On September 10, defendants moved to dismiss the action and filed motions to stay discovery and consideration of class action certification pending the decision of the court on the Motion to Dismiss. The parties presented oral argument on October 22. On October 25, defendants' motions to stay were granted.
- The court heard oral arguments on the Motion to Dismiss on December 3. A decision is expected prior to March 1, 1994.

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## Legal/Regulatory

8. What is going on with the investigation being conducted by the U.S. Attorney for the Eastern District of New York into allegations of industry misconduct?
- This is a legal matter, and it is our policy not to comment on pending legal investigations.

## Product Defects

9. Why does Philip Morris oppose legislation to limit the ability of trial courts to issue protective orders in litigation that keeps information about product defects or other public hazards away from the public?
- Existing court rules generally grant trial judges discretion to keep information confidential. This allows protection of trade secrets, personal medical records, or other information produced during the discovery process and not introduced at trial which could be taken out of context.
  - The plaintiff's bar hasn't shown that trial judges are abusing this discretion, so other legislation is simply unnecessary.

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## Beer

### **Pabst**

10. What is the result of the Pabst lawsuit against Miller Brewing Company and Philip Morris Companies Inc. over the Molson acquisition?
  - The case was voluntarily withdrawn by Pabst in September confirming our earlier view that the case was without merit. No settlement monies were paid by Miller Brewing Company or Philip Morris Companies Inc.

### **Labatt**

11. Why is Labatt suing Miller Brewing Company and Molson, and do you think they will be successful in winning the lawsuit?
  - Labatt filed suit against both Miller Brewing Company and Molson for the use of the term "Ice Brewed" and "Ice Beer" in Miller's and Molson's ice beer advertising.
  - We believe Labatt is trying to appropriate for itself a descriptive brewing term that has been in use for years. "Ice Beer" was developed by German brewers in the last century and a beer known as "Eisbock" has been produced in Germany as well as Ontario.
  - We believe Labatt's legal action in the United States will prove as groundless and frivolous as a similar action they initiated against Molson in Canada. Additionally, this legal action has not affected our national expansion plans for Icehouse or Molson Ice.

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## Food

12. What is the status of the lawsuit between ConAgra and Oscar Mayer?
- A jury in a Wisconsin federal court found that two Oscar Mayer patents were valid and willfully infringed by ConAgra. The jury awarded Oscar Mayer \$9.8 million actual damages, and the court entered an injunction against ConAgra enjoining further infringement.
  - The patents relate to poultry products in which a lactate salt is added in an amount effective to delay the growth of *Clostridium Botulinum*. All poultry processors who use the patented invention are paying royalties except ConAgra, who sold infringing products under the Healthy Choice and Butterball brand names. Oscar Mayer is also asking the federal judge who presided over the trial to increase the award based on the willful conduct by ConAgra. Oscar Mayer believes the judgment is sound and will survive any post judgment motion or appeal by ConAgra.
13. What is the status of the Nabisco Ready-to-Eat Cereals anti-trust suit in New York?
- The suit is still pending, but we consider it is unjustified.
  - We consider that the transaction is closed, and are making plans to integrate the business into our operations.

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## Tobacco

### EPA/ETS

14. What is the status of the EPA law suit? What would be the impact of a win for PM and the other plaintiffs? What would be the impact of a loss? How much has the suit cost the industry? PM?

- PM and several other businesses and organizations in the tobacco industry have sued the EPA.
- At present (as of 11/11/93) the EPA has filed a motion to dismiss the case. The EPA's motion does not address the merits of our law suit. We are awaiting the decision of the judge.
- The impact of a win would be to vindicate our position that the EPA was not justified in taking the actions it did. We hope that the public and policy makers would then reconsider unreasonable restrictions and bans that were based on the EPA risk assessment of ETS. Going forward, we expect that the EPA's demonstrably flawed risk assessment would not be used as a basis for any new sanctions against smokers.
- Because the EPA's motion to dismiss is technical and does not discuss the merits of the case, a win for the EPA will not be a vindication of the EPA's action in arriving at its risk assessment on ETS.
- We do not, as general policy, comment on the costs of litigation. I will say that the loss to smokers and to Philip Morris of letting the EPA risk assessment go unchallenged is potentially much higher than the costs of bringing the suit.

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15. Have there been more lawsuits as a result of the EPA report of January 7, 1993, putting ETS on the EPA's Group A carcinogen list?

- At present (as of 11/11/93) there are 6 ETS cases pending against the industry, and Philip Morris Incorporated is involved in all of them. Of those cases, 3 were filed after the EPA risk assessment was published, and all 3 make reference to that risk assessment.
- While one can't say that the EPA report was the sole factor driving these new law suits, clearly that report had some impact on the filing of the new suits.

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16. Is there any danger that an adverse outcome of the smoking and health litigation against the tobacco company will affect the other operations of Philip Morris Companies?

- The company altered its corporate structure in 1985 to reflect more accurately the breadth of its geographic operations and business diversification.
- The operating companies now exist as first tier subsidiaries of the parent company. Each is operated separately, reporting its financial results to the parent.
- The company's tobacco subsidiary, Philip Morris Incorporated, believes, and has been so advised by counsel, that it has a number of valid defenses based upon preemption as decided in 1992 by the United States Supreme Court. PM Inc. will continue to vigorously defend all such cases.
- Admittedly, it is not possible to predict the outcome of this or any other litigation.
- Management believes, however, that the outcome of pending litigation, no matter what those outcomes may be, will not have a material adverse financial impact upon Philip Morris Incorporated, nor upon the other operating companies of Philip Morris Companies Inc.

17. Do you expect liability suits because of secondhand smoke?

- While there are a few such lawsuits pending, we do not believe a plaintiff will be successful because the scientific evidence does not support such claims.

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18. How many smoking and health product liability suits are pending against Philip Morris? Against the cigarette industry?
- To be updated: As of 12/12/93, there are 51 suits pending against the industry, including 23 suits against Philip Morris.
19. What defenses has Philip Morris asserted in response to existing smoking and health product liability suits?
- (a) Federal preemption;
  - (b) general causation – does smoking cause disease;
  - (c) specific causation – did smoking cause this plaintiff's disease; and
  - (d) contributory fault – did the plaintiff smoke while aware of the claimed health effects of cigarette smoking.
20. Have adequate reserves been established to reduce the financial risks associated with pending and future smoking and health product liability suits?
- Because of our success in defending these suits, we do not presently believe that the pending suits will have a material adverse effect upon the financial condition of the company, and, accordingly, have established no reserves for potential adverse outcomes. We are constantly reviewing our reserve requirements, and will take action if and when it becomes appropriate.

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21. Is the use of ETS an issue in child custody cases going to have an impact on PM's tobacco business?

- It shouldn't. There are only a few such cases and even in those, smoking has been only one factor taken into consideration. We think it is improper for people who want to ban smoking to inject the issue of family break-ups into the debate.
- [More TK.]

### General

22. How many asbestos cases are pending in which cigarette manufacturers have been named defendants? Will those cases be more difficult for Philip Morris to win?

- There are 4 lawsuits pending against cigarette manufacturers in which asbestos companies are also defendants. Philip Morris is a defendant in two cases: the Pitre and Williams cases. The issues in these cases are substantially similar to those against the cigarette manufacturers only, and therefore, while the outcomes are not certain, we believe we will win these cases also.

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## **LOBBYING**

### **Cigarette Excise Taxes**

1. What is PM doing to combat the Clinton Administration's proposal to raise cigarette taxes by \$.75 per pack?
  - The company has been working very closely with Senators and Members of the U.S. House of Representatives in whose states and congressional districts we have plants and other cigarette-related facilities to defeat the proposal. There have been concerted efforts for the past 12 months by a good number of representatives in Congress to inform the President, the First Lady, and other key Administration officials of their opposition to the \$.75 per pack proposal.
  - We have reached out to our employees, tobacco farmers, vendors, suppliers, and others whose livelihoods and businesses rely on the sales of tobacco products.

### **Public Policy Positioning/Third Party Support**

2. Aside from lobbyists and trade associations, how else do we influence public policy debate?
  - PM is a strong supporter of public policy research institutes, popularly called "think tanks."
  - Via research and analysis, assessment of policy alternatives, coalition building, forums, and a variety of other communication strategies, these organizations can influence the policy debate, the legislative climate, and public opinion on issues of interest to the company.
  - They also can provide an "early warning system" concerning legislation, regulation, and changing public opinion.

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3. There have been numerous reports of tobacco industry "influence peddling." Specifically, Philip Morris has been accused of using substantial corporate money to defeat health legislation at the state and federal levels. Aren't the public and stockholders entitled to know how much Philip Morris is spending to influence public policy?
- Philip Morris currently complies with all required disclosures for lobbying expenses.
4. Isn't it true that you use your company's tremendous financial clout to influence tobacco-related legislation?
- We exercise our constitutional right.
  - All our political contributions or fund-raising activities conform strictly to federal, state and local laws.

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## MISCELLANEOUS ISSUES

To date nothing under Miscellaneous. We will try to keep it that way.

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## RESTRUCTURING

1. Is this restructuring directly related to the cigarette price war you started in April?
  - We did not start a price war. The pricing strategy we announced on April 2 was our response to changes in the U.S. tobacco business brought about by a slow-growth economy and the resulting impact on consumer buying habits. Third quarter shipment share data show Marlboro has 25.7% of the market up from a low of 21.5% in the first quarter.
  - The restructuring plan addresses the continuing volatility of an intensely competitive consumer products marketplace. This effort will improve our bottom line and free up cash for future growth.
2. Are you focusing most of the cutbacks in your domestic tobacco business because of its depressed earnings?
  - This is a worldwide restructuring that will affect each of our consumer products businesses. The effort is not limited to domestic tobacco.
3. How do you see the restructuring improving your competitive position against other tobacco companies?
  - The restructuring will significantly reduce our cost structure and improve the future growth, profitability and cash flow in each of our businesses — not just tobacco.
4. What factors did you consider when making decisions on plant closings and downsizings?
  - We examined each facility for its ability to contribute to our long-term growth and profit goals.

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5. In your news release, you provide after-tax figures for charges relating to restructuring and SFAS No. 112. What is the total pre-tax charge you are taking?

- We are taking two separate actions that will lower our 1993 earnings by \$952 million, after taxes.
- The first action is a restructuring charge to cover the costs of our restructuring plan, which includes plant closings, downsizings and other business consolidations. This charge will be \$457 million after taxes, or approximately \$741 million before taxes. The gross, or pre-tax, amount will not affect our full-year operating companies income.
- The second action is a \$495 million after-tax charge for the adoption of SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Under the accounting standard, we must now expense the cost of severance benefits over the working lives of our employees. Previously, we did it at the time when an employee was terminated.
- This charge has two components: The normal recurring charge for the annual ongoing cost of anticipated severance benefits, and the cumulative, or "catch-up," adjustment.
- The recurring charge, before taxes, will lower our operating companies income. Adopting SFAS NO. 112 means that, in addition to \$31 million we have already expensed, we have to book an incremental charge of about \$29 million before taxes, or about \$18 million after taxes. Beginning in 1994, the recurring charge will be about \$60 million.

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- As with any significant accounting change, the cumulative adjustment is net of tax; in this case, the net-of-tax adjustment will be \$477 million. This amount will be presented in our financial statements after Earnings Before Cumulative Effect of Accounting Change. The gross, or pre-tax, equivalent of this charge for the implementation of SFAS No. 112 is approximately \$771 million, but will not lower operating income.
  - Adding the 1993 incremental charge of \$29 million before taxes, and the approximate \$771 pre-tax equivalent of the net-of-tax adjustment, the total pre-tax effect of adopting SFAS No. 112 is approximately \$800 million.
6. Which business units are affected by the restructuring?
- Line and staff functions in all of our consumer products businesses will be affected.
7. When will you announce the specifics of plant closings and other restructuring actions?
- As plans are finalized, our operating companies will announce specific actions.
8. What is the timing of these plant closings and over what period will you spread out the payments?
- We anticipate the restructuring plan will be fully implemented by the end of 1997.
9. When do you expect to realize most of the savings from the restructuring?
- About three years. When fully implemented in 1997, annual savings should reach about \$1 billion before taxes, \$600 million after taxes.

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10. Do you anticipate combining any of your existing business units as part of the restructuring?
- At present, we do not anticipate combining any of our existing business units.
11. Is the September merger of Kraft General Foods Europe and Jacobs Suchard covered in this restructuring charge? What was the charge for that action?
- The merger of KGF Europe and Jacobs Suchard is included in the current restructuring charge. We cannot break out specific charges by business unit.
12. Do you plan to sell underperforming assets as part of the restructuring? Which businesses will you exit? Why?
- We will exit some businesses that no longer represent a strategic fit. None will be our core consumer products businesses.
13. What will you do with the proceeds from asset sales?
- We haven't yet determined how we will use the proceeds. They may be reinvested to grow and strengthen our core businesses.
14. What percentage of the workforce reduction will be salaried employees? Hourly? How many domestic employees will be let go? How many overseas?
- We cannot provide a breakdown between salaried and hourly employees.
  - Worldwide employment currently is at 168,000 — an increase of about 7,000 since the end of 1992, due to various acquisitions in that time. At year end 1992, about 43% of Philip Morris' workforce was located outside the U.S. The percentage is now slightly higher, but we can't provide an exact figure at this time.



15. How are the workforce reductions broken down by operating unit?
- We cannot comment on specifics of our workforce reductions.
16. Of the 14,000 jobs you plan to cut, how many will come from early retirement and attrition, and how many will be actual job losses?
- We cannot comment on specifics of our workforce reductions.
17. How will your earnings and cash flows be impacted in 1993 and 1994 by the costs of the restructuring?
- For 1993, the combined charges will lower our reported full-year net earnings by \$952 million, or \$1.08 per share, but will have no material impact on cash flows.
  - For 1994, there will be no negative impact on earnings from the restructuring. We do expect to realize significant savings next year from our actions, but we can't predict how much of those savings will reach the bottom line. There will be some cash flow impact as the result of severance payments, but we can't estimate how much.
  - Long-term, we expect to reduce our cost base by approximately \$1 billion (pre-tax) or \$600 million (after-tax) by 1997.
18. Do you plan to cut capital spending as part of the restructuring? How about marketing and research and development spending?
- We can't comment on our capital spending, marketing and R&D plans.
19. Which plants are you planning to upgrade with new manufacturing equipment?
- We can't disclose specifics at this time.

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20. Do you plan to centralize any shared administrative services as part of the restructuring?
- There may be some consolidation of administrative services, such as finance and human resources, in each of our operating units, but those decisions have yet to be finalized.
21. What are your projections for productivity improvements resulting from the restructuring?
- Savings of \$600 million after tax by 1997.
22. Do you plan additional job cuts in the future?
- We believe the steps we are taking now are necessary to achieve superior profit growth for our shareholders given current conditions.
23. When was the last time you had a major restructuring?
- This is our first across-the-board restructuring. Past restructurings have focused on individual business units, mostly food. We have used restructuring reserves twice in the past four years.
  - In 1989, we created a \$179 million reserve to reorganize our Maxwell House coffee division in the U.S. The reserve was used to pay for the closing of our Hoboken plant and restructuring of our remaining manufacturing operations. These actions contributed to Maxwell House becoming profitable in 1990. This year, we project that the division's operating income will approach \$100 million for the first time since 1985.

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- In 1991, we took a \$455 million write-off, approximately \$250 million of which was related to restructuring our Oscar Mayer unit in the U.S. By closing two turkey plants and two red meat plants, the division has been able to reduce headcount by over 25% since mid-1991, realizing ongoing annual savings of more than \$50 million.

24. You mentioned in previous analysts meetings that you have reduced your cost base by \$2 billion since 1992. What steps did you take to achieve those savings?

- In North American food, we have completed or announced closings of 15 plants, and of several distribution and other facilities, since the beginning of 1992.
- Together with early retirement and other programs, these measures will have saved us nearly \$200 million by the end of this year. Productivity and synergy actions should save us another \$300 million, bringing the two-year total to half a billion dollars.
- Since 1992, we have offered early retirement programs across our U.S. operations, including Miller, Philip Morris U.S.A. and our New York corporate headquarters. We expect our U.S. headcount to be down by almost 10,000 employees by the end of this year, compared to the end of 1991, excluding acquisitions.
- In Europe, productivity and synergy savings this year alone should come to more than \$120 million. And through steps like management and sales restructurings, manufacturing improvements already identified through benchmarking studies, and rationalized distribution, we expect another \$211 million in savings through 1995.

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25. With the passage of NAFTA, are any of the job cuts you are announcing today in reality manufacturing jobs that you plan to shift to Mexico?
- There is absolutely no connection between our plan and the North American Free Trade Agreement.
26. Why are you making this announcement on the day before Thanksgiving? The timing looks bad to employees right around the holidays
- There is never a good time to announce a downsizing. However, our Board meets regularly on the last Wednesday of the month (except July or holidays; in April it's the Thursday of the annual meeting).

#### SFAS No. 112

27. Why are you adopting SFAS No. 112 at this time?
- All companies must adopt SFAS No. 112 by January 1, 1994. We are planning to adopt the accounting standard in the fourth quarter of 1993, retroactive to January 1, 1993.
28. What impact will this have on 1993 earnings?
- The total effect of adopting SFAS No. 112 will be an after-tax adjustment to net earnings of \$495 million (approximately \$800 million pre-tax) for 1993. This total has two components: first, a \$477 after-tax, one-time cumulative adjustment ("catch-up" charge, equivalent to approximately \$771 million pre-tax) and second, an \$18 million after-tax (\$29 million pre-tax), current-year incremental charge against 1993 operating companies income. Previously, the company expensed such benefits when severance occurred.
29. How much of this charge will cover severance costs associated with the restructuring?
- We can't provide that figure at this time.

30. Explain why this charge will have no impact on 1993 cash flow.
- Adoption of SFAS No. 112 will result in a non-cash charge to cover future severance payments. There is no impact on 1993 cash flows.
31. What is the ongoing annual charge you expect from SFAS 112?
- Pre-tax, approximately \$60 million per year.
32. If you were not forced to adopt SFAS No. 112 at this time, how large a reserve would you have had to establish to pay for the restructuring?
- We can't comment on hypothetical questions.

#### General Corporate

33. What will your debt-to-equity ratio be at year-end? What level do you expect next year?
- We expect our debt-to-equity ratio to be about 1.40 to 1 at year end. Excluding the restructuring charge and SFAS No. 112 adjustment, our debt-to-equity ratio will be 1.29 to 1.
34. How will your credit ratings be affected by the restructuring?
- We do not anticipate that our credit ratings will be affected by the restructuring charges.
35. Do you expect to resume repurchasing shares?
- We have \$1.2 billion in an existing two-year authority to repurchase shares. The company will take that action if it deems appropriate.
  - [If asked, the authority expires in May 1994.]
36. We understand that you are adding Stephen Wolf to your Board of Directors today. Was he consulted on the restructuring plan?
- Yes. He was elected prior to the Board making its final decision.

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## Beer

37. On December 1, Miller announced the closing of its Fulton, New York brewery. How many employees will be affected?
- About 900 employees at the Fulton Brewery were advised of a plan to close the facility in two phases over the next year.
  - In total, about 1,200 employees will be affected by the restructuring over the next year.
- 38.. How was it announced?
- Employees were notified by their supervisors, and an employee announcement and press releases were issued that same morning.
39. Are severance packages being offered.
- Yes, to salaried employees.
40. Will there be more terminations. Is it over?
- We expect to continue to streamline as business needs dictate; but we believe the majority of the cuts are behind us.
41. What will Miller's employment be after the reduction in workforce?
- About 7,800 after the Fulton closing (including Molson and Leinenkugel).

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## Food

Information will be included as Kraft announces its restructuring plans.

42. What are our plans for restructuring KGFNA's food business?

- Many of KGFNA's actions covered by the restructuring charge are already underway. These include:
  - The consolidation of Lender's West Haven, CT, headquarters into GF Baking in Bayshore, NY.
  - The reengineering of finance and human resources transaction areas.
  - The refocusing of the technology and human resources organizations.
  - Sales force consolidations within Kraft USA and General Foods USA.
- These steps already announced and underway are expected to account for a large portion of the overall charge. As for the remaining actions we will be taking over the next several years, they will be targeted at specific locations and functions where significant cost savings are possible.

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## Tobacco

43. What are the reasons for the restructuring of PM USA that was first announced in December, 1991? How is it going? How long will it continue?
- Competitive pressures and the changing marketplace mean that increasing manufacturing efficiency is absolutely critical to future revenue growth.
  - Our restructuring efforts to date have been quantifiably successful. We have taken literally millions of dollars in costs out of our manufacturing operations.
  - We fully expect to continue restructuring and realignment.
44. What has been the impact of workforce downsizing in Richmond and elsewhere. Will there be more?
- Since 1991, the PM USA workforce has been reduced by more than 10%.
  - TK
45. Will you be manufacturing in 3 cities five-to-ten years from now?
- That is our current intention.
50. Will the PM USA -Stockton Street facility in Richmond be closing and will there be further layoffs?
- We are constantly evaluating our business needs in order to remain competitive.
  - [to be updated.]
51. What are the long term plans for your Louisville facility?
- We intend to remain in Louisville for the foreseeable future.

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## STOCK MATTERS

1. How can you call your domestic cigarette pricing strategy a success when Philip Morris stock is \_\_\_\_ (TK) percent lower than it was before your April 2 announcement?
  - Recent shipment share data show that Marlboro has 26.6% of the market, up from a low of 21.5% in the first quarter of 1993 — before we implemented our pricing strategy.
  - We believe our actions, while reducing the value of your stock in the short-term, will ultimately result in a more valuable and profitable Philip Morris.
2. What long-term impact will the restructuring you announced on November 24 have on Philip Morris stock?
  - The restructuring will significantly reduce our cost base and improve our future growth, profitability, and cash flow.

(Assumes Board Does Not Raise Dividend At February Meeting)

3. Why did the Board of Directors decide not to increase the dividend? When can we expect to see an increase?
  - We continue to face a difficult and uncertain economic environment.
  - The Board discusses the dividend each quarter.

(Assumes Board Raises Dividend At February Meeting)

- 3A. You recently raised the dividend by TK%. Given the domestic cigarette price increase you announced at the end of last year, plus cost reductions from the restructuring, why didn't you raise the dividend even higher?
  - The Board decided that the increase was appropriate given the company's current financial picture.

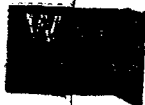
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4. What is the current payout ratio?
  - 1993 payout ratio was 57% (based on \$4.58 EPS from on-going operations and current dividend of \$2.60).
  - Current consensus estimate for 1994 earnings is \$5.23; at current \$2.60 dividend, payout ratio would be 50% in 1994 (as of 1/13/94).
5. Do you think Philip Morris stock is undervalued at this point?
  - Yes, we do. PM has the world's best brands.
  - We are better positioned than most companies to compete in slow-growth world economies.
6. Do you expect to resume repurchasing shares?
  - We have \$1.2 billion in an existing two-year authority to repurchase shares (that authority expires in May, 1994).
7. Why did the stock price go down last year?
  - The price decline does not reflect any broad, company-wide problems in our business, nor any basic weakness in our financial position.
  - Negative reaction to our domestic tobacco pricing strategies
  - Threat of higher excise taxes.
  - Stock is currently up 32% versus a low of \$45 per share in 1993 (as of 1/26/94).
8. What plans do you have to increase stock price?
  - Over long term, share price is determined by earnings growth. We are committed to achieving strong growth.

9. What steps are we taking to counter moves for divestment of tobacco shares by institutional investors?
- We make ourselves available to answer questions from any institution considering divestment.
  - Have developed extensive position papers for financial analysts and institutions.
  - We emphasize very strong long term returns achieved from investment in PM.
10. At what point would you consider a stock split?
- We have split stock on six occasions since 1965, and one share of stock then is worth TK shares today.
  - Splits have occurred at prices ranging from \$60 to \$160.
11. What about two classes of stock?
- We are constantly looking for ways to enhance shareholder value.
12. Is Philip Morris contemplating issuing a separate class of stock pegged to the performance of its food business, like RJR?
- We are continually evaluating the merits of different methods of handling stock matters.
13. Have certain investment firms changed their recommendation to buy Philip Morris?
- As of 1/13/94, 58% of analysts are recommending a "buy" on PM stock (11 of 19 analysts).

14. Who owns Philip Morris?
- Large institutional investors own approximately 70%. (check).
  - Individuals, including employees, own remaining 30%. (check).
15. Have any officers or Directors sold company stock on account of smoking and health products liability suits against PM and cigarette industry?
- To the best of our knowledge, no.

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## TAXATION

### Taxes/Budget

1. How can Philip Morris justify its support for the Budget Agreement Congress passed that contained sharply higher taxes?
  - It's important that we cooperate with officials in the executive and legislative branches.
  - The Budget Agreement did take a significant step in cutting federal spending in an effort to close the large federal deficit.

### VAT/Consumption Taxes

2. Various Members of Congress have indicated that they will introduce legislation to encourage savings through the imposition of VAT taxes or other forms of consumption taxes. What is Philip Morris' position on these types of taxes?
  - We have first-hand knowledge of how value-added taxes and other consumption taxes are imposed.
  - We formed an internal task force late last year charged with determining where PM should position itself concerning potential adoption of a VAT.
  - Imposition of a VAT would be in the company's interest only if it was a replacement for existing or proposed additional excise taxes on cigarettes, or, as a replacement for some or all of the corporate income tax.
  - Particularly under the scenario of an add-on VAT, it is only the zero-rating/exemption of food products under which PM is not hurt measurably. Prohibitively high increases in cigarette excises have a much greater impact on our profitability than does imposition of a VAT, even if preferential treatment is granted to food products.

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- While we have had some negative experiences in the European community from the imposition of value-added taxes and excise taxes, we intend to participate in the debate here in the U.S. as the issue begins to unfold in the next several years.

### Health Care Reform/FET (General)

3. What is your feeling about an FET (Federal Excise Tax)?
  - We must contain the rapidly escalating costs of our system while maintaining its high quality.
  - Irrespective of the merits of any health care reform initiative, it is simply unfair to burden a single sector of the economy to fund a national proposal that purports to benefit all citizens.
  - If health care reform legislation must be paid for through increased taxes, those taxes should be progressive and broad-based.
4. Should excise taxes on tobacco and alcohol products be increased to pay for the cost of health care reform?
  - Controlling escalating health care costs should obviate the need to raise taxes. However, if additional revenue proves necessary, it should come from broad-based, equitable taxes, and not from excise taxes, which are regressive.
5. With the recession in Western Europe and Japan, and the governments pressured for revenues, do we expect additional tax/pricing demands as a result?
  - Already with increased tax pressures, we still managed to increase profitability in most of our markets.

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6. The press has stated that there may be a need to tax other so-called "sin products" to achieve the funding levels that the Administration's health care reform plan will need. What is the company's position as it relates to additional taxes on beer?

- We do not agree with the term "sin tax."
- We oppose all product-specific excise taxes. Excise taxes are regressive.

## Beer

### Excise Taxes

7. What is your point of view on increased excise taxes on alcohol?

- We oppose an increase in excise taxes on alcohol beverages because they are regressive.

8. What percentage of the price of a beer goes to taxes?

- The federal excise tax on a \$3 six-pack of beer is \$.32. State taxes range from \$.01 to \$.50. Taxes contribute between 10% and 30% of the average price of a six-pack of beer. Even before the latest 1991 increase, taxes on beer had already exceeded the combined cost of the labor and ingredients used to brew it.
- The government now makes seven times more money from beer than brewers do.
- Beer taxes are not a reliable source of income for government program funding.

9. How much of the cost of excise taxes is passed along to the consumers?

- All increases in excise taxes are passed on to consumers.

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## Tobacco

### Health Care Reform/FET

10. What does PM USA plan to do about the FET?
  - PM USA Corporate Affairs is actively working to influence FET legislation. PM USA employees and our customers have written letters to their government representatives opposing a tax increase. Finally, we provided our smokers with letter writing kits so that they can also oppose a tax increase.
  - We have marketing contingency plans that address potential increases in the FET.
11. What is the status of the Clinton administration's proposal to increase the federal excise tax on tobacco?
  - On October 27, the President sent his written plan to Congress, which included a proposed 75-cent increase per pack on cigarettes.
  - The media reported that the 75-cent figure represented a compromise, that the administration had not expected the sustained intensity of the opposition it got from tobacco state legislators, from smokers and from the tobacco industry.
  - Philip Morris does not consider a 75-cents per pack increase a compromise.

12. What is PM doing about it?

- Our employees are mobilized against the plan.
- Our employee unions are also very active against the tax, as are small tobacco farmers throughout the tobacco growing regions of the south and east.
- We are supporting a number of economic impact studies in key states which show exactly how many jobs are at stake that are directly or indirectly tied to tobacco.
- We have started to include tax information cards with the merchandise that is being redeemed through the Marlboro Adventure Team promotion. To date (11/11/93) more than 27,000 individuals have received the cards.
- We are adding to our database as a result of the survey that was sent out with the Bill Campbell letter to the majority of adult smokers.
- We have joined forces with RJR. Their database was also used to provide the names of people to whom information about the tax issue could be sent.
- We are lobbying Congress.

13. Aren't you being hypocritical in complaining about an excise tax increase and its regressive nature when you raised your prices like there was no tomorrow all through the 1980s?

- Not at all. Pricing is actually set by the dynamics of a free market system which include the cost of doing business, economic conditions, and the willingness and ability of consumers to pay.
- Excise taxes are artificial, arbitrary, and permanent. Excise taxes are unaffected by supply and demand.

14. If federal taxes were increased sharply, how badly would it hurt PM's cigarette business?

- The biggest threat to our business is that higher taxes tend to drive sales down.
- High taxes on cigarettes are inflationary, cause significant job loss, and are among the most regressive taxes on the books.
- Smokers try to find some way to mitigate the tax, such as buying their cigarettes on military bases or Indian reservations. Local businesses and government tax revenues suffer.

15. What about state and local excise taxes on cigarettes? How badly were we hit last year, and what can we expect in 1993?

- \_\_\_\_\_ state excise tax increases on cigarettes were proposed last year. Only \_\_\_\_\_, including the District of Columbia, were actually passed. This represents a success rate of nearly \_\_\_\_\_ percent.
- At the local level, \_\_\_\_\_ tax increases were proposed and \_\_\_\_\_ passed.
- We will probably see at least as many proposals to hike cigarette excise taxes this year.

[ specific information on bullets above TK at year-end.]

16. If state and local taxes do keep going up, how badly will it hurt PM's sales?

- The impact will be industry wide.
- More smokers crossing the border into low tax states to stock up.
- Law enforcement resources to be stretched to combat increased cigarette smuggling and hijacking.

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17. Will the EPA's report on ETS make it harder to defeat tobacco tax increases?
- Tax proponents may use the EPA report in an attempt to buttress their arguments, but we doubt if it will sway legislators or voters.
  - Taxes are an economic issue, and we think the social engineering agenda of the EPA report is rather transparent to most legislators.
18. If the U.S. raises its federal excise tax, do we expect similar increases in other countries? If so, what are we doing in anticipation?
- There's no reason to expect that the U.S. tax policy will influence the domestic fiscal policy in other countries.
  - Where tax increases are proposed, we will seek a higher specific tax component in order to narrow price differentials and provide greater insurance against price wars.

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## TRADE

### NAFTA/Uruguay Round

1. What is Philip Morris' position on the North American Free Trade Agreement (NAFTA) and the Uruguay Round of International trade negotiation?
  - Philip Morris strongly supports NAFTA and also supports the Uruguay Round process.
  - Both undertakings aim to liberalize international trade in goods and services and the protection of intellectual property rights, such as trademarks.
  - Removal of trade barriers will provide us with expanded market opportunities.
2. NAFTA critics claim that the agreement will result in significant job transfers from the U.S to Mexico. How do you respond to these critics?
  - A report by the highly respected U.S. International Trade Commission (ITC) – done at the request of Congress – did find that Mexico would gain more in terms of both employment and economic growth than either Canada or the United States from NAFTA.
  - However, the report showed that both the U.S. and Canada would also experience increases in employment and economic activity, and that long-term employment in the U.S. would increase by about 1% as a result of the pact.

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3. While I understand the company supports the NAFTA, could you provide an example of how, on the state and local level, we demonstrated our backing of this measure?
- We were a charter member of USA\*NAFTA and of New York for NAFTA, 2 organizations composed of companies that coalesced to influence the debate on NAFTA. Through meetings with our elected representatives, placement of ads in prominent media, participation in the White House "Product Day", and other vehicles, we provided momentum in support of this agreement in addition to our efforts in Washington.
4. How will NAFTA affect PM's business?
- While we expect little immediate impact, we anticipate, over the long term, greatly enhanced opportunities to sell virtually our entire stable of brands in the Mexican market, a market that heretofore has been protected by a complex system of tariffs and non-tariff barriers.
5. What is KGF's position on the overall NAFTA agreement?
- Mexicans are already buying over \$30 million worth of KGF products annually.
  - Improved access to the Mexican market will create additional demand for U.S. farm commodities, helping improve farm income and creating additional employment in the processing of those commodities into value-added, packaged consumer goods.



7. What is KGF North America doing to assess the opportunities resulting from NAFTA?
- KUSA, GF USA and KGF Canada are looking at a number of cross-border sourcing opportunities. This process started a few years ago with the signing of the Canada U.S. Free Trade Agreement, and is continuing today.
  - We have also initiated a KGF North America-wide manufacturing strategy study with the objective of determining the optimum North American manufacturing configuration. It is expected that this study will identify a number of improved cross-border sourcing opportunities that will benefit KGF North America as a whole.
8. Isn't NAFTA going to create a big super-national entity like the European Community?
- No. NAFTA deals with economic matters dealing largely with trade and investment, while the EC is striving for political as well as economic unity.

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## KGF Canada

9. What will the impact of NAFTA be on KGFC?

- Since the signing of the Canada-U.S. Free Trade Agreement a few years ago, KUSA, GF USA, and KGF Canada have conducted studies together to identify cross-border sourcing opportunities. As a result, we have realigned some production to take advantage of superior capabilities in Canada and the U.S.
- Over the past year some challenges have emerged in the area of Canadian exports to the U.S. namely in sugar containing products, wheat, beer and to a lesser degree, peanut butter and paste. Canada/U.S. talks have been ongoing on these issues.
- Even before the implementation of NAFTA, we initiated a further round of North America-wide manufacturing studies which include Mexico to identify opportunities that will benefit KGF North America as a whole.

## Canada - U.S. Free Trade (CUSTA)

10. Since its passage, how has the Canada-US Trade Agreement impacted KGF?

- This agreement has allowed KGF to better serve its North American customers by rationalizing our production facilities between the U.S. and Canada.

11. What does NAFTA do to CUSTA?

- CUSTA is largely subsumed within the NAFTA. However, the tariff reduction schedule in the CUSTA will continue, with the result that all tariffs between the U.S. and Canada are to be eliminated by January 1, 1998.

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## Oscar Mayer

### 12. Is Oscar Mayer expanding into Mexico or Canada?

- Oscar Mayer entered into a distribution agreement with Sigma Allmentos in April of 1993 to distribute Oscar Mayer, Louis Rich, and Claussen branded products in Mexico.
- Oscar Mayer has entered into distribution agreements with distributors in Canada to distribute Oscar Mayer, Louis Rich, and Claussen branded products in Canada.

## GATT

### 13. How will the recently-completed Uruguay round of GATT negotiations affect our KGF North American business?

- The most significant outcome of the GATT will be to open up, over time, all borders to significantly increased imports of agricultural products, particularly processed products.
- The GATT agreement will convert quota systems to tariffs, which are to be reduced over a long period of time, as much as 15 years. We do not expect any significant impact in the near term.

Note: No Uruguay round concessions become effective until July 1, 1995.

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15. What impact does the GATT agreement have on the international food business?

- It calls for the elimination of non-tariff barriers and their replacement with import duties - which are to be reduced.
- For example, over time, proposed subsidy reductions on European dairy products which would serve to make both U.S. and Australian dairy exports more competitive internationally.
- We are investing in Australia to reduce our costs on processed cheese to further enhance our low cost producer position.

### **Fiscal Policy**

16. There are still many foreign currency problems in Eastern European countries, the former Soviet Union, and China. What are we doing to ensure a stable influx of hard currency?

- We are presently making money in our cigarette business in Russia and other various republics of the former USSR.
- PMI has developed a network of private distributors in the former Soviet Union who purchase our products for hard currency or guaranteed credit support.
- In China, current PRC regulations require foreign cigarettes to be sold in hard currency (Foreign Exchange Certificate).

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## Currency Fluctuations

20. As currencies fluctuate throughout Europe, how does this impact KGFI's business, and what plans do you have to lessen a negative impact?

- The translation of local operating results into U.S. dollars negatively affected 1993 results by \$94 million. The cross-rate fluctuations within Europe adversely impacted us by \$93 million.
- Transaction losses were due to major devaluations of the Italian Lira and British Pound Sterling vs. the Mark in Germany and Franc in Belgium.
- KGFI actively monitors the foreign exchange markets.

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